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China puts off new stock listings to protect investors

China is postponing new stock listings in an attempt to ensure that companies seeking investment from the public are sound, and it wants to increase the role of investment funds to calm its volatile stock markets.

The official Xinhua news agency reported that a considerable portion of the stocks scheduled to be issued this year to local investors, known as A-shares, will be postponed to 1995. Page 14

Hanson, Anglo-US conglomerate, is to lengthen its payback period for new investments by up to two years, in an attempt to take advantage of low interest rates and inflation. Page 15; Lex, Page 14

Rise in US gun crimes: A record 981,000 violent crimes were committed with handguns in the US in 1993 - almost a 50 per cent increase on the annual average during the previous five years. Page 6

Singapore Airlines, consistently one of the world's most profitable carriers, says intense competition plus the continuing strength of the Singapore dollar caused annual pre-tax profits to dip 7.7 per cent to S\$971m (\$556m). Page 18

Brussels to woo Ukrainians: The European Union will today make a start at trying to forge a more even-handed strategy toward Russia and Ukraine, by bolstering its relationship with the latter. Page 14; Ukrainians tend their gardens amid misdeeds and weakness. Page 3

Assurance on dollar: US treasury secretary Lloyd Bentsen said the feeling that Washington was content to see the dollar drop in value was a "misrepresentation". Page 6

European Monetary System: A 50 basis point cut in official German rates last week heralded cuts in interest rates from all EMS countries except Portugal. The order of currencies in the grid remained unchanged. Continuing political scandals caused the Spanish peseta to weaken further. Currencies, Page 29

EMU Grid May 12, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Atlantic Richfield, the US energy company, has confirmed reports that investments in derivative securities led to steep losses last month in an employee investment fund it manages. Page 15

Syrian hint on Mideast progress: US secretary of state Warren Christopher arrived in Damascus on a mini-shuttle that the US hopes can produce discernible progress in talks between Israel and Syria, amid a rare official hint of possible flexibility from Syria. Page 5

Guinness, the drinks group, said it would defend an \$8m writ for damages issued by Thomas Ward, a Guinness director at the time of the takeover of Distillers in 1986. Page 16

Tourism 'could save whales': Potential revenues from whale watching - an increasingly popular form of tourism - make the mammals worth more alive than dead, UK and US officials will argue ahead of the annual meeting of the International Whaling Commission. Page 6

Endeavour: Book-building for the global share offer in the Spanish electrical utility has now officially begun and subscriptions for the domestic retail tranche of the shares open on Wednesday. Page 18

British troops to exercise in Poland: British soldiers will today take part in a military exercise in Poland. It will be the first set of war games by British troops in a former Warsaw Pact country. Page 3

Alcatel NV, a Belgian subsidiary of the French telecommunications group, is negotiating a \$150m loan to the Turkish government in a bid to keep Teletis, its Turkish subsidiary, afloat. Page 18

Bank attacked over Crest system: The Bank of England's handling of the Crest share settlement system has been sharply criticised by a former executive of the Securities and Investments Board, the City's chief regulatory watchdog. Page 7

Pull-out blow to EKO Stahl: The Trenhand privatisation agency was last night seeking ways to salvage EKO Stahl, eastern Germany's largest steel mill, following the decision by Riva, the private Italian steel company, to pull out from buying the plant at the 11th hour. Page 2

Four in a row for Schumacher: German Michael Schumacher, driving a Benetton, continued his dominating start to the Formula One season by finishing first in the Monaco Grand Prix, making it four wins out of four. Briton Martin Brundle, in a McLaren, was second and Austrian Gerhard Berger was third in a Ferrari.

Country	Score	Country	Score	Country	Score
Austria	54.02	Germany	48.50	Italy	47.50
Belgium	48.10	Hungary	47.10	Japan	46.10
France	47.10	Spain	46.10	Switzerland	45.10
Germany	48.50	Italy	47.50	Japan	46.10
Hungary	47.10	Spain	46.10	Switzerland	45.10
Italy	47.50	Japan	46.10	Switzerland	45.10
Japan	46.10	Switzerland	45.10	United Kingdom	44.10
Spain	46.10	Switzerland	45.10	United Kingdom	44.10
Switzerland	45.10	United Kingdom	44.10	United States	43.10
United Kingdom	44.10	United States	43.10	United States	43.10
United States	43.10	United States	43.10	United States	43.10

Orly to open for UK flights

By Paul Betts in London and John Riddick in Paris

Britain and France agreed a compromise yesterday on the opening up of Orly airport in Paris to UK airlines, just 24 hours before the escalation of a potentially damaging dispute.

Under the accord, reached after two days of intensive telephone negotiations between the two countries' transport ministers, France agreed to open Orly to flights from London by the end of next month at the latest.

Britain, meanwhile, will consider improving access for French airlines to London airports, particularly Heathrow, in line with European regulations.

British Airways and Air UK had threatened to defy a ban by the French government and launch services to Orly this morning. They had announced plans to start flights to the airport in southern Paris following a ruling last month by the European Commission which said

Ministers head off crisis with deal giving British carriers access to Paris airport

France must immediately open the London-Orly routes.

After the agreement was announced, Mr John MacGregor, the UK transport minister, said it was "a victory for European open skies". The dispute had been "the first test case" for implementing the European Union's new liberalised air transport market.

His French counterpart, Mr Bernard Bosson, who had warned the British airlines against trying to fly to Orly without official approval, described the agreement as equitable.

The dispute came to a head last week when Mr Bosson declared that the planned London-Orly flights could not start until a number of problems had been resolved. These included the implementing of measures to

ease congestion at Orly, environmental considerations for local residents and improved access to Heathrow for French airlines.

Britain yesterday agreed to the short delay in the opening up of Orly, the main airport for domestic French destinations, after receiving French government guarantees that it would be opened as soon as possible to UK airline competition.

In a joint statement, the two governments said France would do "everything in complete transparency" to solve the safety, environmental and congestion problems at Orly in accordance with European provisions.

BA and Air UK both welcomed the agreement. Sir Colin Marshall, BA's chairman, said: "Our objective all along was to secure

our right to fly to Orly and we have done that."

Air UK will delay starting its Orly services from London's Stansted Airport. Both BA and Air UK will continue operating services to Charles de Gaulle, Paris's other airport.

Mr MacGregor confirmed that Britain would continue opposing French plans to inject FF20m (\$3.4m) of fresh capital into Air France, the financially troubled French national carrier. He also said the UK would continue to take a strong position against state subsidies for other European national carriers.

The UK and its airlines are also expected to continue putting pressure on France to open Orly well before the end of the June deadline.

Despite yesterday's agreement, the French government faces continued opposition from trade unions to increased competition on domestic routes. Union groups at Air Inter, the domestic subsidiary of Air France, the loss-making state-owned carrier, are planning a one-day strike tomorrow to protest against the liberalisation of the French airline market.

The French government is also resisting the timetable of deregulation which has been demanded by the European Commission. It is appealing to the European Court of Justice against a Commission ruling that the Orly-Toulouse and Orly-Marseille routes must be opened to competition within six months.

TAT European Airlines, BA's French affiliate, said yesterday's agreement encouraged it to believe France would implement the EC ruling on the Orly-Toulouse and Orly-Marseille routes.

Business Travel, Page 9
Lex, Page 14

Russian PM vows to hold firm on reform

By John Lloyd in Moscow

Russian prime minister Victor Chernomyrdin has pledged to continue tight money and credit policies, in spite of having reached what he calls "the trough of the crisis" in the country's economic transformation.

Mr Chernomyrdin, writing in today's Financial Times, predicts that his economic policies will produce inflation of between 7 and 8 per cent a month by the end of the year, down from a high of around 30 per cent at the end of last year.

He acknowledges that the consequences of reform have been a drop in production in the first quarter of about 25 per cent compared to the same period last year, but says that this did not and will not deflect the government's course.

Referring to the intense pressure from ministers to increase spending, Mr Chernomyrdin says that every member of his cabinet "fully understands that a strong ruble is the indispensable condition for the revival of the Russian economy".

"Our common task is clear," he writes, "that every Russian citizen should know that everything his government does is directed to protect the purchasing power of the ruble he earns".

He also holds out the prospect of the beginnings of an economic revival in the near future. "We are now living through the trough of the crisis. In the next few months, we can make a break from the basic negative tendencies which have held back our development in the last two or three years".

However, he makes clear that he does not envisage mass factory closures and a sharp rise in the unemployment rate, as that would "sharply worsen the political and the social situation in the country".

Mr Chernomyrdin presents, for the first time, the outline of an action programme on structural industrial change which divides enterprises into three groups: those which are adapting

Continued on Page 14
No exits on the road to market.
Page 13

S Africa hit by resurgence of political violence

By Mark Suzman in Johannesburg and Gordon Cranb in Cape Town

South Africa's respite from its problems ended at the weekend as at least 15 people died in political violence, and ministers in the new all-race government tussled over budget allocations.

The incidents highlighted the harsh realities facing the new government, following the post-election euphoria. President Nelson Mandela's government also has to make early decisions on economic policy.

Fears of a resurgence of violence grew after 12 bodies were discovered on Saturday in a house in Thokozana, a black township east of Johannesburg, in the worst incident since the country's first democratic elections began three weeks ago. Although the political affiliations of the dead were not immediately known, Thokozana has been a centre of clashes between supporters of the victorious African National Congress and the Zulu-dominated Inkatha Freedom party.

Police did not rule out involvement of the so-called "third force", a shadowy group of extremists with links to the security forces who have attempted to destabilise South Africa's transition to democracy.

The killings followed a series of incidents between Inkatha and ANC factions at the Western Areas Gold mine west of Johannesburg last week which left seven workers dead before management and the security forces negotiated a stand-off between the groups of workers.

In the KwaZulu/Natal region, where the worst pre-election bloodletting took place, there were at least three politically motivated deaths over the weekend. Chief Mangosuthu Buthe, whose Inkatha Freedom Party won control of the KwaZulu/Natal provincial legislature, warned that violence would scare off vital foreign investment.

Meanwhile, provincial and national leaders have begun competing for scarce budgetary resources ahead of next month's budget.

Mr Ben Turok, a radical political scientist from the University of Durban Westville, who has publicly called for higher rates and taxes for whites, has been put in charge within the regional cabinet of implementing the ANC's reconstruction and development programme in the Pretoria-Whitwatersrand-Vereeniging (PWV) region around Johannesburg. This is South Africa's economic heartland, accounting for some 39 per cent of GDP. Mr Turok, who is the region's premier, has promised to consult

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Continued on Page 14

Foreign companies angered by Japanese tax increases

By Robert Peston in London and Paul Abrahams and Michio Nakamoto in Tokyo

European and US companies operating in Japan are receiving unwelcome news in their tax bills, following systematic investigations of their profitability by Japan's national tax agency.

Tax increases running to hundreds of millions of dollars have been imposed on Coca-Cola, the US manufacturer of soft drinks, Roche and Ciba-Geigy, the Swiss pharmaceutical groups, and Hoechst, the German drugs group.

Other big companies, including US chemicals group DuPont, are currently being assessed by the Japanese tax authority and fear similar increases.

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A Swiss official said Swiss tax officials would be visiting Japan in the coming week for talks on the increases with the National Tax Agency.

Coca-Cola (Japan), which is the single largest taxpayer among foreign affiliated companies in Japan, is appealing against a ¥15bn tax penalty recently levied, and also wants bilateral government talks.

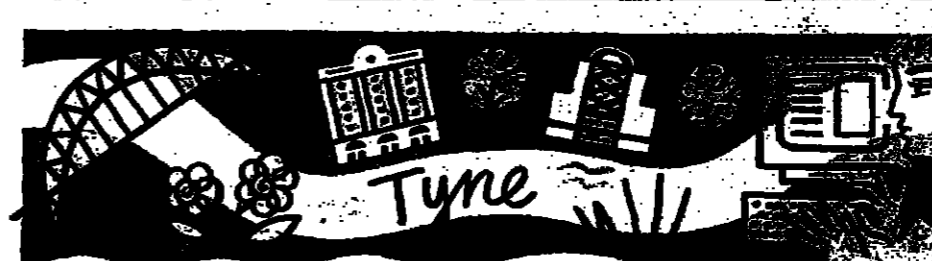
Hoechst refused to quantify how much increased tax it faced, but said it was appealing to a Japan-Germany intergovernmental tax committee.

Mr Terry Symons, a partner of accountancy firm Price Waterhouse specialising in transfer pricing, said: "The public face of the National Tax Agency is reasonable and co-operative. But at a local level, that co-operation is ignored, international rules are not understood and officials are aggressive."

He also warned: "Some western companies are so concerned, they are considering not putting new investment into Japan."

Ciba-Geigy, which was charged an additional ¥5.7bn in taxes for 1990 to 1993, said: "This assessment is unjustified and outrageous... The company will use all possible avenues to oppose this assessment."

Continued on Page 14



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THE BIG FOUR BANKS OF THE NORTH EAST

NEWS: INTERNATIONAL

Hopes at Eko Stahl dashed as Riva pulls out

By Judy Dempsey in Eisenhüttenstadt

The Treuhand privatisation agency was last night seeking ways to salvage eastern Germany's largest steel mill following the decision by Riva, the private Italian steel company, to pull out from buying the plant at the 11th hour.

As Ms Birgit Breual, president of the Treuhand, held talks with management state and union officials, the people of Eisenhüttenstadt, close to the Polish border, had little confidence a buyer would be found. "It is now pretty hopeless," said Wolfgang Hirsch, a 38-year-old who used to work at the Eko Stahl steel mill. "If the mill closes, Eisenhüttenstadt has nothing else to offer its 50,000 people. The town was built in

1951 around the new steel mill which the communists located here."

Before German unification in 1990, the mill was producing an annual 2.5m tonnes and employing 12,000 workers. Today, it produces 900,000 tonnes and has 3,000 full-time workers on the pay-roll.

"Many of the unemployed from the mill just sit at home," said Ms Birgit Henschel, a nurse at the local hospital. "They drink more and more. They have no perspective. Many young people have already quit and gone to west Germany. We thought the Italians would save the plant."

Riva withdrew at the weekend despite the go-ahead by the European Commission allowing the Treuhand to earmark DM813m (\$325m) for the plant. The capital would be used to modernise the cold rolling

mill and invest in equipment for manufacturing hot-rolled flat products, both aimed at converting the loss-making Eko Stahl into an integrated and competitive mill.

Riva's decision to pull out was apparently precipitated by a row with IG Metall, the engineering union. Riva had wanted to reduce the workforce by 700 to 2,300 as soon as possible, while the union wanted the jobs to be slowly phased out up to the end of the year. Both sides also failed to agree on the composition of the supervisory board.

DM1bn in the mill, and was committed to guaranteeing 1,700 jobs between 1997 and 2004. For its part, the Treuhand had agreed to pick up Eko Stahl's debts and losses, and provide the investment grants

which, combined, amounted to DM2.7bn.

The collapse of the Riva deal will be greeted with some relief by west Germany's steel manufacturers, who had persistently opposed the modernisation plan. They had argued that the construction of a modern hot rolling mill would pose a threat to the industry.

But more significantly, Eko Stahl would contribute to the already high levels of overcapacity in Germany's steel sector.

As a compromise, a consortium, led by Thyssen and Preussag, the steel manufacturers, proposed buying 50 per cent of Eko Stahl's cold rolling mill, closing down the hot-rolling furnaces, and securing 1,000 jobs for the mill's subsidiaries. The Treuhand rejected the plan.

But the Treuhand's insistence on creating an integrated steel mill at Eisenhüttenstadt, at considerable expense to the taxpayer, reveals a shift in its own philosophy.

In 1990 and early 1991, the agency had rushed to close down enterprises, - for example, Interflug, East Germany's state airline, on the grounds that it was making huge losses and not worth restructuring.

In reality, west German airline carriers did not want competition. Throughout that period, the number of jobs available in eastern Germany decreased from 9.3m to 6.2m, with the Treuhand at the forefront in speeding up privatisation and closing down enterprises.

Yet since then, as Eko Stahl and other cases show, the Treuhand has increasingly anchored its economic/

ideological philosophy in social and political considerations. An official of the West German Steel Federation agrees. "Eko Stahl is a political issue. The Treuhand and the government cannot afford to close it down because there's nothing else in the region," he said.

The Treuhand goes one stage further in justifying its attempts to save Eko Stahl. "We will try to find another buyer for Eko Stahl because, eventually, a modern, integrated steel mill on the borders with eastern Europe has a great chance," an agency official said. "We have to restructure and look to the long term because we have to turn some of these regions of eastern Germany into highly competitive industries. Otherwise there will be a desert. That is what Eko Stahl means."

Turkey struggles as IMF team flies out

By John Murray Brown in Istanbul

Officials of the International Monetary Fund and World Bank fly out of Turkey this week, leaving Mrs Tansu Çiller's conservative-led coalition and its economic policies in limbo.

Agreement on a stand-by facility from the Fund is at least six weeks away, and it will probably be September before structural adjustment credits from the Bank can be approved.

In the meantime, Turkey has to hold the line on wages, meet its own extremely tough targets on fiscal adjustment and service its \$660m (245bn) foreign debt.

The Fund's endorsement of the austerity programme which Mrs Çiller unveiled on April 5 is vital to unlock funds, without which Turkey may have difficulty financing its balance of payments.

The domestic markets remain jittery.

Even with interest rates in the overnight market soaring, the currency is tottering at around TL24,000 to the dollar, representing a 60 per cent devaluation since the start of the year.

Bankers are concerned that without the Fund's approval, further commotion could hit the international markets. Turkey's long-term debt credit rating has already been downgraded three times this year by Standard & Poor's, the US rating agency.

For this reason alone, the Fund seems likely to endorse the programme and agree a letter of intent, even with some misgivings.

In parallel, the Fund is understood to be doubtful about whether the inflation targets, on which the whole programme is based, can be achieved.

Inflation touched 24 per cent in April, in the wake of the one-off price rises on official commodities. According to Mr Necati Özkan, head of the State Planning Organisation, inflation will fall to 7 per cent in May, and 28 per cent for the second half of the year as a whole. Turkey's year-on-year inflation was 107 per cent in April.

Achieving such a target will depend in part on a political consensus: wage talks are due in June with both the civil servants and workers in the state industries.

The revenue side looks more solid. One-off tax charges on the rich have been passed by parliament. Parliament passed decree powers for three months allowing the government to prepare companies for sale.

Indeed in April the budget deficit fell from TL7,300bn in the same period in 1993 to 300bn last month - although the fall is partly explained by the large amount of tax falling due in April.

Last week, in another encouraging development, the Treasury sold bills at the first time since the start of the year. The issue was a small one, the Treasury receiving offers for TL6,000bn-worth of one month paper at 12 per cent a month.

With international markets temporarily closed off, domestic debt auctions are the only way, short of printing money, that Turkey can finance its domestic budget.

Together with agreement from the banks to convert a part of their maturing Treasury bill portfolio into three-year paper, inflation-indexed plus 6 per cent, the government is slowly restoring confidence in the markets.

Survey will add to calls for postal liberalisation

By Roland Rudd

The European Commission will tomorrow come under renewed pressure to liberalise postal services, with the publication of a survey revealing significant dissatisfaction with the reliability and cost of services.

The poll of business postal users in Belgium, France, Germany and Spain comes as the latest draft paper by the commission on drawing up a new regulatory framework indicates a move towards greater liberalisation.

The Commission's paper, entitled Proposal for Regulatory Framework for Postal Services in the EU, says arguments to justify restrictions on the operation of direct mail

and cross-border mail "are not sufficiently convincing". Following publication of a postal green paper in 1992, the Council of Ministers last December asked the Commission to come up with legislative proposals on changing the regulatory regime before July 1994.

Businesses now hope the EC will increase competition in postal services, liberalising direct mail and cross-border mail and opening express services and the mailing of publications to greater competition.

The survey was commissioned by the European Federation of Direct Marketing Industries representing companies such as Time Warner and Readers Digest. It was not conducted in the UK or Holland

because both countries have already begun to liberalise postal services.

The federation's research shows that many business postal users are unhappy with charges and the reliability of services. In particular, more than 70 per cent of German businesses are dissatisfied with postal charges and more than 80 per cent of Spanish businesses with reliability.

Businesses believe the liberalisation of the postal services in the four European Union member states will improve the quality and reduce the cost of services.

Almost unanimous support exists for the principle of using any private or public postal service in any EU country.



Some of the 200 Citroën Traction cars which gathered at a rally in Caen in northern France at the weekend

Polls show González lagging

By David White in Madrid

The damage that recent corruption scandals have done to Mr Felipe González's Spanish government is shown in a series of opinion polls giving the conservative opposition a decisive lead in next month's European parliament election.

The polls also show the ruling Socialists losing their absolute majority for the first time in the regional parliament of Andalusia, where elections are being held at the same time as the European ballot on June 12.

Mr González, launching his party's European campaign in Madrid on Friday, said it would have to make "an enormous mobilisation effort". He admitted that the elections were taking place at "an extremely delicate moment".

The daily El Mundo, which has spearheaded allegations of corruption and financial misconduct by senior officials, published a poll yesterday showing the Socialist share of the vote falling to 32.8 per cent, against 40.2 per cent in the last European election four years ago.

This was almost five points behind the conservative Popular party, whose vote was shown rising to 37.6 per cent from 31.7 per cent in 1989.

This would give the Popular party 27 of Spain's 54 European parliament seats, against 15 at

present. The Socialists would lose three or four of their current 27 seats.

Another poll commissioned by the conservative Barcelona daily La Vanguardia gave the Popular party a lead of 5.9 points, although half its respondents were undecided or had decided not to vote. A majority thought the government was not doing enough to combat corruption, and almost 45 per cent thought Mr González should resign.

An earlier survey published by the right-wing Madrid newspaper ABC showed the Popular party 6.8 points ahead. All the polls pointed to a strong result for the Communist-led United Left.

Three Dutch political parties will this week begin exploring the formation of a coalition excluding the centrist Christian Democrats (CDA) from government for the first time in modern Dutch politics.

Queen Beatrix has appointed three elder statesmen from Labour, the right-wing Liberals and the left-of-centre D66 to hold preliminary talks on the possibility of creating a cabinet without the CDA.

By Ronald van de Krol in Amsterdam

The CDA of the outgoing prime minister, Mr Ruud Lubbers, suffered heavy losses in general elections on May 3. Labour, which had ruled as a junior coalition partner with the CDA for five years, also lost seats in parliament but emerged as the biggest party overall. The Liberals and D66, by contrast, made strong gains at the polls.

The Queen's appointment of three "informateurs" to explore a new coalition brings the possibility of a cabinet without the CDA a step closer.

Dutch parties to discuss coalition

By Ronald van de Krol in Amsterdam

But there are still formidable hurdles on the road to a left-right cabinet, an untried phenomenon in Dutch politics.

The three politicians - Mr Klaas de Vries for Labour, Mr Gijs van Ardenne for the Liberals and Mr Jan Vis for D66 - will have to try to bridge the gap between Labour, which wants no new reform of the social security system, and the Liberals, which is proposing a radical cut in benefits provided by the state.

The three men do not hold seats in the lower house of par-

liament and are not involved in the day-to-day politics of their parties, making it easier for them to explore options than it would be for colleagues who stood in the election.

If the three make progress, their party leaders may then be asked by the queen to launch formal negotiations on a new coalition.

However, the process could take weeks, and any failure to agree would give the CDA a chance to return to government and avoid relegation to the opposition benches.

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Greek curbs on capital movement lifted early

By Kerin Hope in Athens

The Greek drachma could face more pressure today, following the government's unexpected decision at the weekend to lift all remaining restrictions on short-term capital movements six weeks ahead of the July 1 deadline.

Mr Yannis Papantoniou, the economy minister, said the decision to speed full liberalisation was taken "to rebut speculators' expectations and unfounded rumours" of a devaluation in the run-up to the deadline.

Economists described the move, which brings Greece into line with European Union rules on free movement of capital, as a bold attempt to preempt speculative attacks on

the currency as the date for lifting curbs approached. However, they pointed out that there was now little likelihood of a drop in interest rates.

The government aims to buttress the drachma this week by launching a new issue of Ecu and dollar-linked, drachma bonds, which are popular with both domestic and foreign investors, at interest rates of 7.5 and 7.7 per cent respectively.

The Bank of Greece spent almost \$1bn, equivalent to about 9 per cent of the country's foreign exchange reserves, to support the drachma following the D-Mark's strong rise last week.

The Greek currency fell from Dr147.2 to Dr146.1 against the D-Mark last week. On Friday,

the interbank three-month rate jumped above 25 per cent, from 19 per cent at the start of the week.

However, central bank officials dismissed the prospect of a massive outflow of capital with the disappearance of curbs that prevented Greeks from holding bank accounts or making short-term investments abroad.

There is greater concern about the effects on the Greek currency of lifting the ban on short-term borrowing in drachmas by international investors.

However, the bank still appears committed to its "hard drachma" policy under which the Greek currency will be allowed to slide by only 7 per cent this year against other EU currencies.

Berlusconi's programme faces vote of confidence

By Robert Graham in Rome

Mr Silvio Berlusconi, sworn in as Italy's prime minister last Wednesday, faces his first parliamentary test this week when the programme of his right-wing government is put to a vote of confidence.

His Freedom Alliance, which won the March general elections, has an easy majority in the chamber of deputies but needs to attract external support to win in the senate.

Government failure to win confidence in both houses would open up a political crisis that could lead to new elections.

Mr Berlusconi formulated last week the outlines of his programme with his main allies - the populist Northern League and the neo-fascist MSI/National Alliance. But he has been finalising details over the weekend after receiving suggestions from individual ministers.

The programme is set to give priority to deregulation, tax



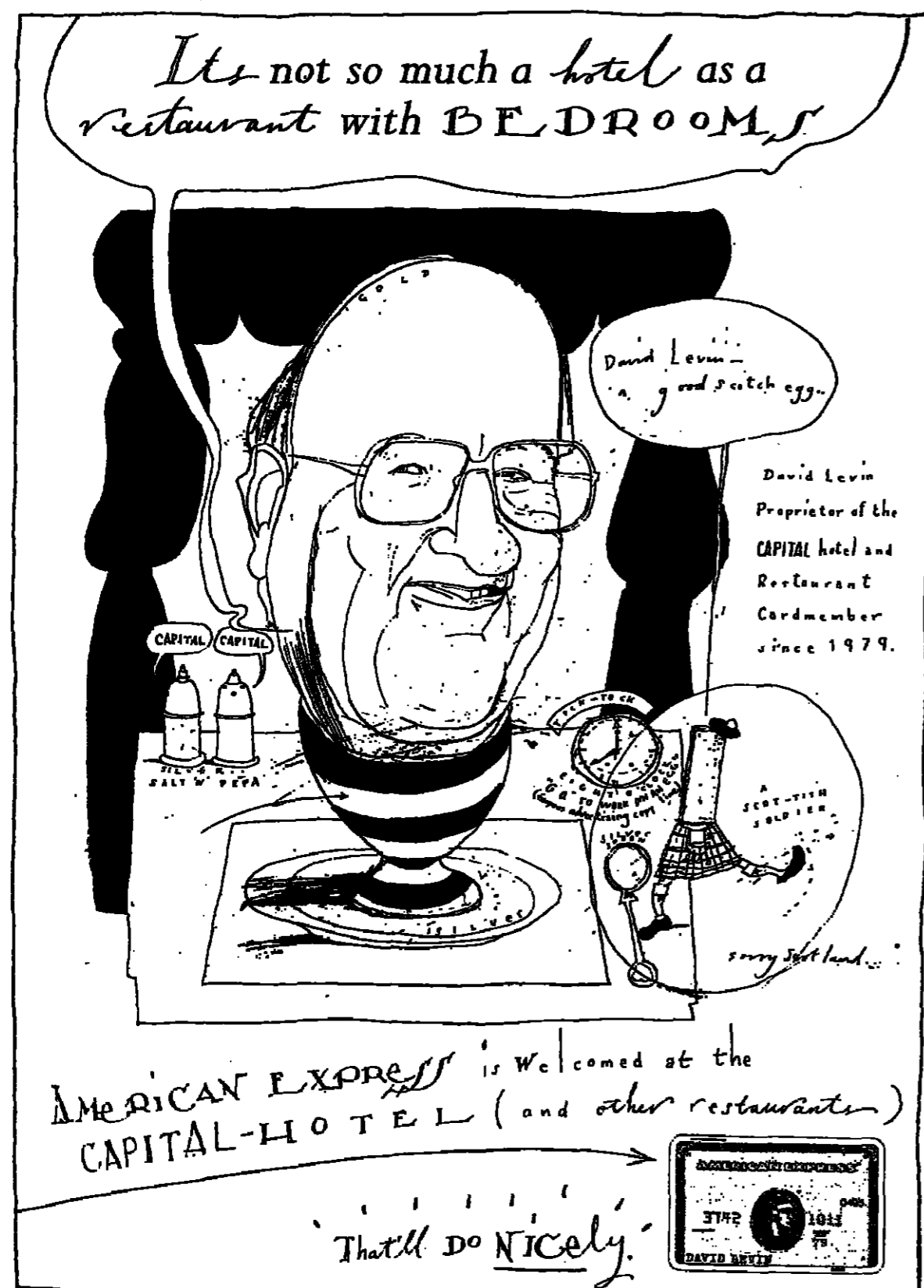
Berlusconi: needs support

will seek a 30-day freeze on all privatisation to re-examine existing procedures.

The senate vote of confidence is expected on Wednesday and that of the chamber of deputies by the end of the week.

In the 315-seat senate, Mr Berlusconi's Freedom Alliance has 156 seats but needs 164 to be assured of a majority. Against this there are 117 senators in the progressive block and 34 belonging to the Popular party. There is a further "mixed group" that comprises 19 seats plus 11 life senators.

When the various parties voted for a new speaker last month, the government candidate won by a single vote. To be assured of a comfortable working majority, the media magnate-turned-politician must be able to rely on some of the former Christian Democrat senators, especially those who are disillusioned with their partnership with Mr Mario Segni, the pro-reform "referendum" leader.



Ukrainians and mudd...

proposed state electricity

MBA PROGRAM from the OPEN BUSINESS SCHOOL

Ukrainians tend their gardens amid muddle and weakness

Jill Barshay on the consequences of government paralysis

Ukraine's future is looking as uncertain as ever, despite the convening of a new parliament last week.

The parliament was unable to elect a head and is preoccupied with forming politically expedient, but unstable, coalitions and arguing over the imperfect election law which brought it to power.

No decisions appear to be in prospect on critical issues, such as whether to hold next month's presidential elections or to launch economic reform.

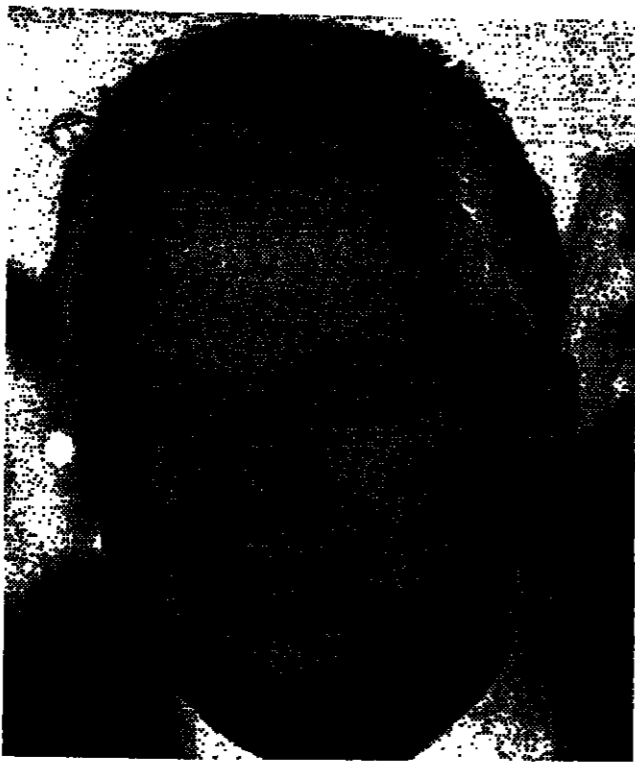
President Leonid Kravchuk is so weak he cannot amass enough support to put issues on the parliament's agenda and the government, which is likely to be replaced in the coming months, is paralysed by infighting and the election season.

Negotiations with Russia have collapsed over division of the Black Sea Fleet. An International Monetary Fund group is in Kiev, but Ukraine is still unable to meet the rather lenient conditions required to release \$700m in loans.

"Ukraine is a rudderless ship, with no direction, drifting at sea," said one western diplomat.

Despite the depth of the governmental paralysis, Ukraine remains socially and politically stable. There have been no mass protests or strikes for nearly a year. While Crimea is continuing to strengthen its links with Russia, it has stepped back from outright secession. Nuclear warheads are being transferred to Russia according to the deal brokered by the US.

Inflation has been reduced



Kravchuk: about-face to stand as president again

AP/Wide World

from 90 per cent a month last December to 6 per cent in April. A market economy has been slowly emerging as private businessmen openly flout Kiev's stifling laws to survive.

But this promising underground economy, largely of trade and services, is functioning without rules, providing ample opportunity for growth in organised crime and corruption.

At the same time the legal economy has plummeted further. After years of 20 per cent annual declines, Ukraine's official

statistics show a 34 per cent drop in GDP in the first quarter of this year, compared with the same period last year.

Last Friday the factory which produces the affordable, albeit shabby, Zaporozhets car

announced production was to be halted because unreasonable taxes were taking 100 per cent - and more - of profits. Mr Kravchuk has been squeezing the debt-ridden state industry for his budget while those who produce non-durables have easily evaded taxes.

Ukrainians, on average, earn

about \$18 a month - 40 per cent short of the \$30 required to buy a basket of basic goods, such as bread and butter. Instead of going to work, Ukrainians spend most of their time planting vegetable gardens at their dachas to ensure they do not starve this year.

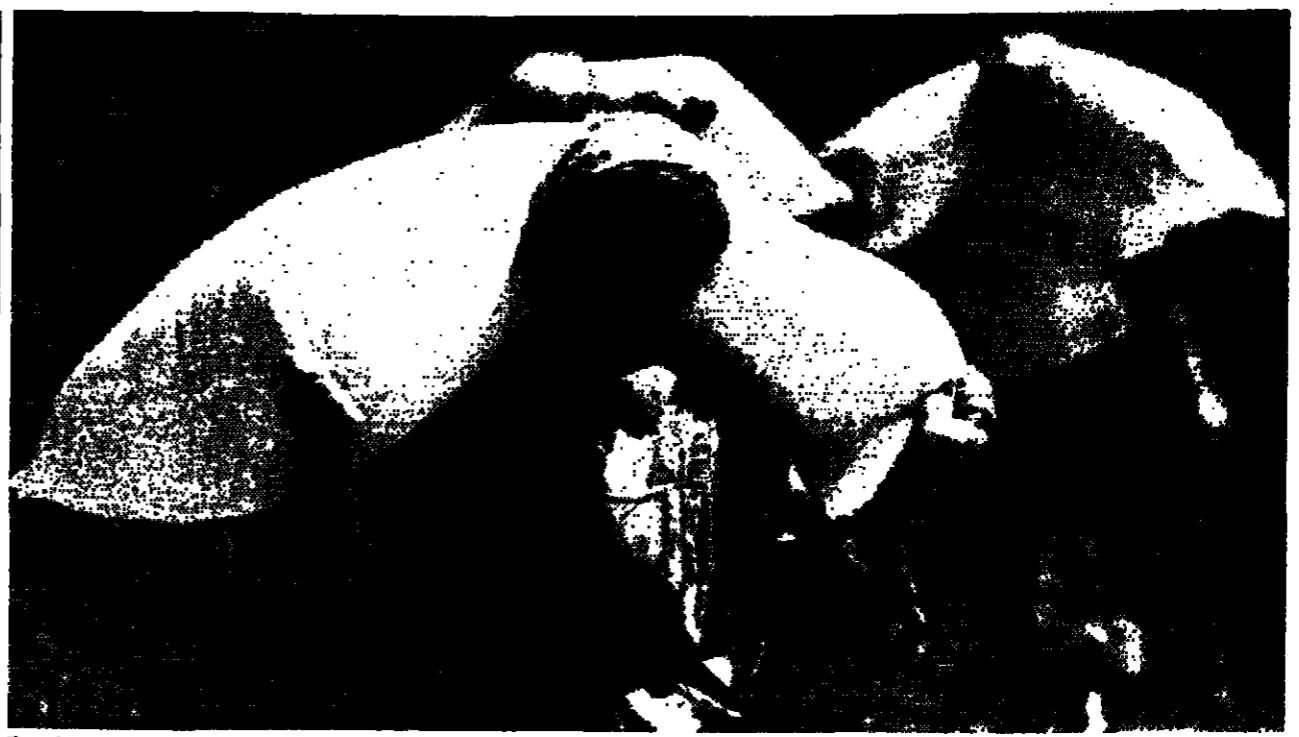
Discontent among the old communist establishment, Mr Kravchuk's main support base, is a great problem for him. His rhetoric on economic reform threatens their easy access to state subsidies as his policies destroy their ability to maintain even low levels of industrial production.

Having previously said he would not stand in the presidential race and prepared to cancel presidential elections and rule by decree, Mr Kravchuk made an about-face and registered as a presidential candidate at the end of April.

Though still trying to garner support to postpone elections through frequent television and radio broadcasts, the dejected leader left the opening meeting of parliament alone without uttering a word last Wednesday.

The continuing muddle may provide a victory to the left if elections - both presidential and local - are held next month. Communists will be able to argue that the current decay is the result of market reforms, a potent notion in Ukraine where living standards were much higher under Soviet rule, rather than the result of inaction.

"Reform has never had a chance here, but it's being hung out to dry," says a western official.



Bosnian women carrying bags of UNHCR-donated flour the 10km to their homes in the village of Dubrave near Tuzla yesterday. Reports of skirmishes in northern Bosnia threw a shadow over a new international drive to end the war in former Yugoslavia. Reuter reports from Sarajevo. Bosnian government army sources said their Moslem-led troops, normally outgunned by Bosnian Serb foes, had pushed Serb forces back in three separate attacks near Tuzla in recent days.

Picture: Reuter

Dutch-German initiative aimed at easing Russian concerns

UK troops to exercise in Poland

By Bruce Clark, Defence Correspondent

A company from the British army will today start a military exercise in Poland that is small in scale but large in political importance. It will be the first set of war games by British troops in a former Warsaw Pact country.

The four-day manoeuvre, which will focus on peace-keeping and involve 96 British soldiers, is one of the first concrete signs of the long-mooted military relationship between eastern and western Europe coming to life.

In a related move, Germany and the Netherlands yesterday announced an initiative to upgrade the powers of the 52-nation Conference on Security and Co-operation in Europe.

This initiative will be welcome in

Moscow and could help to allay growing Russian concerns over ties between its former allies and members of Nato.

The German-Dutch proposals coincide with ideas mooted by President Boris Yeltsin during his visit to Germany last week, and they suggest that a tentative compromise is emerging over the extension eastwards of Nato. The proposals would give the CSCE the right to address the UN Security Council, and in some circumstances to intervene in conflicts without the agreement of the warring parties, in other words to impose a settlement.

According to a German foreign ministry statement, a decision by the CSCE to intervene in conflicts would be taken "by consensus". This could suggest something short of absolute unanimity among the CSCE's 52 members, which include the

US, Canada, all European states and former-Soviet republics.

Moscow badly wants international approval for a de facto Russian sphere of influence in the Commonwealth of Independent States. The German-Dutch ideas say the CSCE should become involved in "peace-keeping" in the CIS, and in practice this is likely to refer mainly to Russian forces.

This week's Anglo-Polish exercise, in the Polish town of Kielce, has been arranged by London and Warsaw bilaterally, but is being billed by Britain as a project "in the spirit of" Nato's Partnership for Peace plan.

Poland has been the quickest of the former Warsaw Pact nations to build military ties with Western Europe, both bilaterally and in the context of PFF.

Split proposed for Russian state electricity company

By Michael Smith

RAO, the Russian state-controlled electricity company, would be split up and its power stations restructured into a series of competing companies under proposals being considered by the Russian government.

KPMG Management Consulting of the UK, which drew up the proposals as part of a European Union-sponsored study, acknowledges that the system would lead to price rises for consumers. This is in part because it would enable subsidies to be eliminated.

However, the proposed structure would help reduce costs and stimulate investment needed as power demand increases later in the decade, it says. It could also provide a framework for the industry's full privatisation, although KPMG believes that is not essential.

So far about 20 per cent of RAO's shares have been offered to workers and private individuals.

The country's 72 local distribution companies, or energos, which also generate some power themselves, have been established as joint stock companies with some shares distributed to the private sector. However, RAO still owns majority stakes in most of them. As well as its stakes in the energos, RAO also runs the country's largest power stations and the despatch system which selects which of them operate.

KPMG's system, which draws heavily on the UK electricity industry structure, says RAO's large power stations should be formed into independent generating companies.

In a draft report, KPMG suggests a system in which each generating company

would bid in production offers daily. High-priced generators would not be chosen to operate if demand did not require it.

The energos, which operate smaller generation plants, would be required to sell all of their energy, including their own needs, into the despatch market and buy back their requirements from it.

Energos would also be required to maintain separate accounting records for generation, distribution and other activities. This would prevent cross-subsidisation.

Most of the changes are similar to reforms being proposed in the European Union.

The report says transitional arrangements would be needed during the implementation of the system over several years. The market should continue to be regulated at both a federal and regional level, it says.

French in Chinese cement deal

By John Riddling in Paris

Lafarge Coppée, the French building materials group, yesterday announced that it is to set up a joint venture cement manufacturing company in China as part of its strategy of expansion in rapidly growing markets.

The joint venture company, to be called Beijing ChinaCement, will be situated about 50km to the north of the Chinese capital, and will be based on an existing production facility with a capacity of 700 tonnes per day.

Lafarge Coppée said that production would gradually be expanded to take advantage of the growing demand for cement in the Peking area.

The French group said that the consumption of cement in Peking totals about 6m tonnes per year and is growing at an annual rate of about 10 per cent because of infrastructure and public works projects.

Lafarge Coppée said it would have majority control of the joint venture and would be in charge of industrial operations. It said it had signed an agreement to establish the company with the Peking city authorities, but declined to disclose the size of the investment.

Other members of the joint venture are Beijing Huabei Mine Cement Industrial Company, the State Raw Materials Investment Corporation and Citicorp International.



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NEWS: INTERNATIONAL

Christopher starts shuttle in Damascus

Hint of flexibility in Syria peace talks

By Mark Nicholson in Damascus

Mr Warren Christopher, the US secretary of state, arrived last night in Damascus on a mini-shuttle that US officials hope can produce discernible progress in talks between Israel and Syria, amid a rare official hint of possible flexibility from Syria.

Mr Christopher went straight into talks with Mr Hafez al-Assad, the Syrian president, and Mr Farouk al-Sharaa, his foreign minister, and is expected to travel on within the next 24 hours to Jerusalem. US officials said they then expect Mr Christopher to return for further talks in Damascus.

The intensity of the shuttle, coming just two weeks after Mr Christopher's last visit to Damascus, indicates US determination to achieve progress on the Israeli-Syrian front following the Israeli-Palestine Liberation Organisation agreement earlier this month to implement the first stages of limited Palestinian self-rule.

Mr Christopher's prompt return also suggests Syria believes there is something to be discussed, despite the fact that Israeli and Syrian negotiators have not met face-to-face since the last round of Washington-hosted peace talks in September last year. Negotia-

tions have since proceeded primarily through US mediation, both in Mr Christopher's two previous shuttles and in the Geneva summit earlier this year between President Bill Clinton and Mr Assad.

Mr Christopher will certainly seek Syrian commitment to accept the longstanding US invitation to resume bilateral talks with Israel in Washington. But there are signs his mediation is itself making progress. After his last trip on the eve of the May 4 US-PLO deal, Mr Christopher spoke of the Israeli-Syrian track having entered a new "substantive" phase.

Mr Christopher will also visit Jericho, the West Bank town newly handed over by Israel to limited Palestinian authority, during the shuttle, US officials said yesterday. The visit will be the first by any international statesman to the new areas of limited Palestinian self-rule.

After his last shuttle, Syria rejected an Israeli proposal for an Israeli withdrawal from the Golan Heights staged over a number of years. Syrian officials instead repeated Mr Assad's firm demand that a peace deal could come only after an Israeli commitment to full and immediate withdrawal from the heights, which it has occupied since the 1967 Arab-Israeli war.

However, Tishreen, the state newspaper, yesterday signalled a possible softening on the question, saying that Syria was ready to reach a deal with Israel if it concluded "a clear commitment for withdrawal from the whole of the Golan within a reasonable and acceptable period of time".

Diplomats in Damascus said that while the question of a phased Israeli withdrawal has long been privately aired, it has seldom been officially referred to so directly or positively. "It is certainly a sign of more flexibility," said one. Most observers believe Syria would insist on a phased withdrawal over months, rather than the several years suggested by Israel.

However, few observers in Damascus expect Mr Christopher's visit to achieve a public breakthrough. For this, Israel is still requiring Mr Assad to spell out in detail what he means by a "full peace" with Syria, while Mr Assad in turn wants Israel to make an unequivocal statement of willingness to return the Golan to Syrian sovereignty and withdraw from it entirely.

Moreover, Syria is also determined to wrest bilateral concessions from the US in return for delivering a deal with Israel - a matter which will certainly feature in Mr Christopher's talks.

Refugee plea to warring sides

The United Nations High Commissioner for Refugees yesterday appealed to the warring sides in Yemen to let an urgently needed convoy reach a camp where Somali refugees have been killed in the civil war crossfire, AP reports from Geneva.

The agency has been trying since the middle of last week to send the trucks with food, medicine and other supplies to Al Koud camp, 50km east of Aden.

It said it had been unable to confirm the number of Somali refugees killed since open fighting erupted between northern and southern forces in Yemen on May 4.

But camp elders had reported the death toll at 175, with an unknown number wounded.

Previous estimates said between 100 and 270 had been killed.

A team representing the UNHCR and the International Committee of the Red Cross reached the camp from Sanaa on Saturday and found only 1,500 refugees left out of a population estimated at 6,000. The rest have fled to a nearby village or into the surrounding countryside.

Refugees told the team that unarmoured men had taken batteries and generators that had been used to pump water to the camp and had confiscated their food, leaving the camp with little or no water, food and medical supplies.

The team brought in only four boxes of ICRC medical supplies, and much more was needed, the UNHCR said.

A second team from Aden that has been trying to reach the camp with the convoy will try again today.

The camp was set up to house 10,000 Somali boat people who fled the civil war in their own homeland two years ago across the Gulf of Aden.

About 4,000 refugees are believed to have moved into Aden before the fighting began.

Gunshots and 20 checkpoints on hazardous road to Aden

Eric Watkins' epic journey from Sanaa ends in frustration

Sitting in the dark with two armed guards at my back, I was beginning to wonder whether my efforts to reach Aden had been worthwhile. I had travelled nearly 600 miles in two days from Sanaa, the capital in northern Yemen, bluffing my way through more than 20 military checkpoints, and two sets of front lines in the civil war between northern and southern Yemeni forces.

Then, with the Gulf of Aden in view, I was nabbed by northern military forces who accused me of espionage. In the company of a French journalist, I had headed south. Northern troops, we had heard, were rapidly approaching Aden and were soon likely to enter the city.

From the south, however, we had heard nothing. Communications between north and south had been cut and Aden Radio was off the air. As we wound through back roads to avoid the first military checkpoint, our guide told us to invent a story to get us through later checkpoints.

Our first test came quickly. A few miles up the road, an armed soldier flagged us down. He demanded to know who we were. "Oil men," our guide, Mahmoud, said. "They don't speak Arabic."

The story held up mile after mile. But the strain had got to Mahmoud who declined to go on with us. Resting in the lobby of a hotel in Mareb, north of Aden, I was soon joined by officials, who had brought along AK-47s.

"Good afternoon," said one, extending his hand. "I'm the chief of police here and this is the head of the petroleum board. Are you the BBC journalist?"

"No, I'm with the Financial Times," I explained that we had heard northern broadcasts claiming that southern jets had bombed the oilfields at Mareb. "Oh no," he said, "that has never happened. Last week one jet bombed the town and soldiers fired at it. But the jet dropped no bombs."

After producing my press

pass and a copy of the Yemeni press law, and answering "not at all" to the question "are you doing anything illegal?", we got approving nods. "Well," the police officer said, "just take care. There is plenty of trouble on the road."

He was not wrong. A couple of miles along the road, two

drive to central security headquarters.

Within minutes, the chief told us there had been no battle at Ataq. Four northern jets had tried to bomb the airport, but they had missed. One aircraft was shot down. The chief agreed to our travel plans and gladly provided us with an

official retreat, moving in an orderly procession to join their comrades behind us. We soon reached the battlefield, the road littered with charred and abandoned vehicles. A northern brigade, we were told, had defeated the southerners and secured the area.

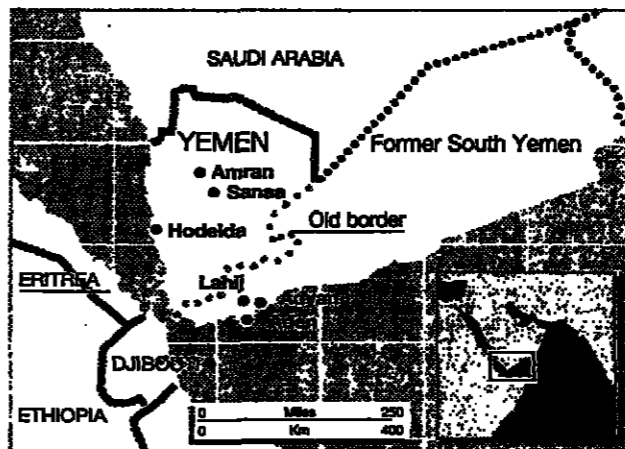
By early afternoon we had progressed well, moving along in a series of lifts in handy vehicles. Just a few miles more and we would be overlooking Shuqra, a small town on the Gulf of Aden. And there, we hoped, we could hire a small boat to take us the remaining 60 miles into Aden. But our luck failed. A northern military patrol sped past in the opposite direction.

We thought nothing of it. Minutes later it sped back to stop us. An officer jumped out and came to the side of our latest pick-up truck. The searches and interrogations lasted nearly eight hours. A young officer began by going through our bags.

Hours later they were still worried about the absence of film in our cameras. They insisted we had taken photos along the way and had handed the films to southern forces for onward transmission to Aden. Two armed guards were told to watch us. In the distance, flashes of light intermittently illuminated the sky, followed by ominous rumblings.

After accepting that we had no offending films, in the early hours of the morning, they drove us back northward in a pick-up truck with six armed guards and a heavy machine gun. They asked for references in Sanaa, and I thought of giving them the home number of the president, General Ali Abdullah Saleh.

But that seemed a bit too much. Would the name of the president's personal advisor be enough? It was. They released us around with apologies for the inconvenience. There was no inconvenience, we said, apart from the theft of some of our equipment and the failure to get to Aden.



young tribesmen tried to wave us down. Our driver sped on past them. Looking back, I saw one of a tribesman raise his rifle, aim, and fire. He missed us. He shot again and missed. Our journey had so far revealed few signs of war, apart from the occasional military patrol and the odd tank here and there, half-camouflaged in the golden sands. But people along the way assured us the desert was full of soldiers and urged us along our way.

Located some 300 miles to the south-east of Sanaa, Ataq is a dreary little town, a motley collection of concrete buildings. But it had an airport and had become important over the past two years as a transit point for the eastern oil fields.

Ataq's strategic importance had been undermined by unconfirmed reports of a major battle there just days before. Ataq was clearly in the hands of southern forces. Armed soldiers at the checkpoint entering town examined our papers thoroughly, climbed into our vehicle, and ordered us to

official pass showing our names, professions, and an itinerary.

The next morning, we waited an hour on the main road before getting a ride. A local man was cashing in on the war by charging exorbitant rates to taxi people around. We piled into the car, followed by half a dozen other people.

Coming round a bend, we were stopped by military police. Their leader spotted a young lad and ordered him out of the car. "You're a soldier and belong with us," he bellowed, pulling the boy from his seat. The lad was frightened. He was in tears. He was begging to be released. The officer held on to him and waved us through.

Farther along the commander of a southern brigade said we were free to travel, but he advised against it. "The northerners occupy the road below," he said. We pressed on, the road now becoming clogged with southern tanks and heavy trucks coming towards us.

They were, perhaps, in a tac-

Lebanon impasse resolved

By Mark Nicholson in Damascus

Mr Rafik Hariri, Lebanon's prime minister, signalled the end of a debilitating week-long political impasse over a proposed cabinet reshuffle by calling an extraordinary cabinet meeting for today.

His decision ends a week in which Mr Hariri "withdrew" from his duties as prime minister in protest at opposition, predominantly from Mr Elias

Hrawi, Lebanon's president, to his proposals for enlarging Christian influence in the cabinet.

It follows a weekend trip by Mr Hariri to Syria, Lebanon's powerful neighbour, which retains 35,000 troops in the country, during which he held talks with Mr Hafez al-Assad, the Syrian president.

Lebanese officials would not say what resolution had been reached to persuade Mr Hariri to end his "strike", but said a

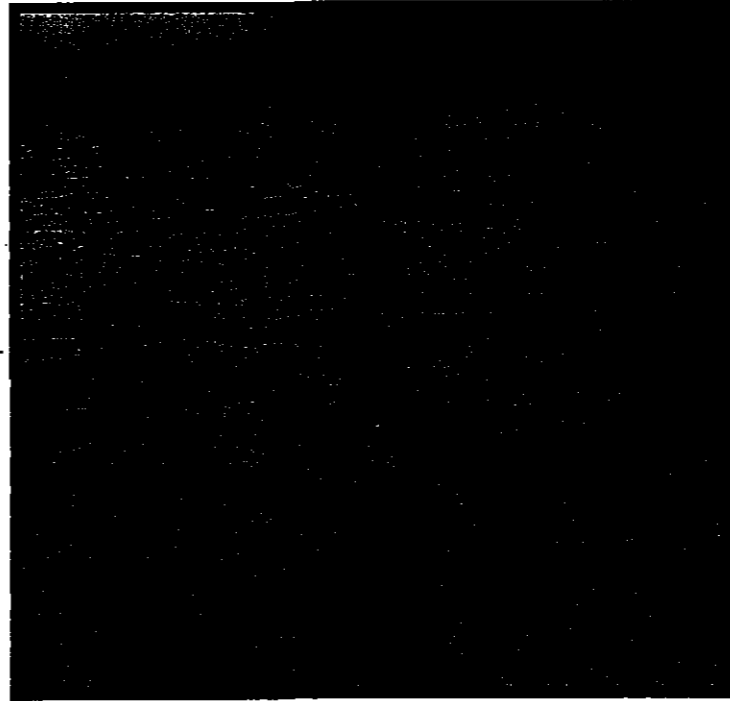
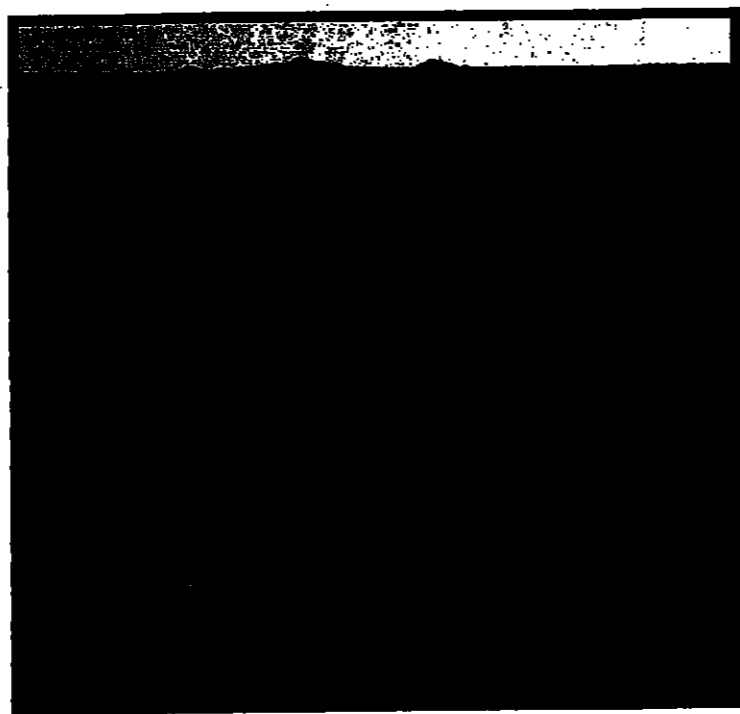
solution to the crisis would be discussed at today's meeting. Mr Hrawi and Mr Nabhi Berri, speaker of Lebanon's parliament, had objected to Mr Hariri's proposal to introduce two senior Maronite Christians into the cabinet and had complained at his appointment of close aides.

The impasse hurt confidence in the Lebanese pound, requiring the central bank to spend an estimated \$200m (\$137m) to steady the currency.

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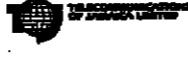
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The fault-lines show in the Grand Old Party

Jurek Martin looks at the many contenders aspiring to lead the opposition to President Clinton

President Bill Clinton's assorted problems ought to be good news for the Republican party. In the medium-term, marked by this November's mid-term elections, this may prove to be the case. Regaining control of the Senate for the first time in 10 years is not out of the question.

But many of the old fault-lines in the Grand Old Party so apparent in 1992 remain, to the point that it can be far from confident about recapturing the White House in 1996 - unless the incumbent hands victory to them on a plate.

This much was evident in the content and reception of former vice president Dan Quayle's new book, *Standing Firm*. The volume was intended to re-launch Mr Quayle on the national political scene as a potential Republican nominee in 1996. Unlikely though it may seem, given the low esteem in which Mr Quayle was generally held, it has certainly served that immediate purpose, even if the boost proves ephemeral.

As Mr David Broder's column put it in the *Washington Post*: "He is running for president, with the Christian conservatives, against the press - and without the insignia of the Bush administration."

Certainly, Mr Quayle used his book to settle old scores with some past colleagues and future rivals, among them Mr James Baker, the former secretary of state (only concerned about himself and less influential than Mr Brent Scowcroft, national security adviser); Mr Jack Kemp, ex-housing secretary (prone to run off at "tangents" with "no discernible point"); and Mr Bob Dole, still minority leader (a closet big spender and rude to boot).

All three are proto-candidates - surprisingly for Mr Baker, who has never liked running for office on his own account. They are often on the rubber chicken circuit in New Hampshire and Iowa, the states which hold the first votes in 1996.

So are Mr Dick Cheney, former defence secretary; Mr Lamar Alexander, former Tennessee governor; Governor Carroll Campbell of South Carolina; Senator Phil Gramm of Texas; Governor Bill Weld of Massachusetts; Mr Bill Bennett, one-time education secretary and anti-narcotics czar; and a few others besides. This is not counting the talk show right, such as Mr Pat Buchanan and Mr Rush Limbaugh, who now register in GOP polls. The nominal leader of the pack is Mr Dole, whose post-



Dan Quayle: attempted re-launch

Tony Anderson

tion gives him visibility. But he will be 73 in 1996 and, even if he does not look or act his age, it is hard to imagine the

party putting him up as anything other than a sacrificial lamb. He also deeply offended the right in a funeral oration

commending the late President Richard Nixon's social policy activism. Mr Cheney generally ranks second in the polls.

The party's biggest fault-line divides the Christian-influenced right, which partisans of the 1992 Houston convention with its proclamation of conservative family values, from the broadly establishment middle, mostly old Bushmen.

They will fight some bitter Republican primary battles this year - for example, in Virginia, where Governor North is running for the Senate, California, where Governor Pete Wilson is seeking re-election, and Minnesota, in both the gubernatorial and senate races.

The party also has subdivisions. The libertarian strain is articulated by Governor Weld and, to a degree, Mr Kemp and Mr Bennett, whose own recent books on values stress his reasonable claim to be the new GOP philosopher king.

But this wing finds itself pitted against the religious right on such issues as abortion and homosexuality, which libertarians feel should not be proscribed by law. On foreign policy, it finds itself at odds with the establishment middle, which has no truck with isolationism.

Activists such as Mr Rich Tafel, who used to work for Governor Weld and now runs Log Cabin Republicans, the homosexual pressure group, claim to have made much ground since the divisiveness of the Houston convention. But any half hour spent tuned in to the Rev Pat Robertson's Christian Broadcasting Network demonstrates the depth of opposition to a party platform tilted towards tolerance.

The problem for internationalists like Messrs Cheney and Baker is that they represent an approach explicitly rejected in the 1992 election. The Republican party was instrumental in getting the North American Free Trade Agreement passed last year. But since then party attitudes, not far out of step with the rest of the nation and egged on by talk show hosts, have turned more inward.

Evidence of this can be found in the recent behaviour of two party bellwethers. Congressman Newt Gingrich, certain to be the next House Republican leader, supported NAFTA but will fight ratification of a perceived threat to US sovereignty that did not trouble him over hemispheric trade. Mr Dole got the Senate last

week to vote in favour of a unilateral lifting of the Bosnian arms embargo.

The healthcare debate is equally divisive. Having declared early in the year that there was no health "crisis," Republicans have been all over the lot since, united only in resistance to the detailed Clinton reform plan. The fear, sometimes acknowledged by Mr Dole and occasionally exploited by Mr Clinton, is of being blamed for blocking any bill, although the hard right would not mind this at all.

Mr Kevin Phillips, former Republican strategist who publishes the *American Political Report* newsletter, sees dangerous historical parallels, with risk of "incipient fratricide".

He writes: "Keep in mind that when parties that have held the White House for two terms or more lose it, their next nomination race is often wide open, bloody and unproductive - the Democrats in 1934, the Republicans in 1936, the GOP in 1964 and the Democrats in 1972. That is the sort of situation the GOP seems headed towards... too many contenders with no obvious strong choice."

Unless, of course, one of them catches fire - or the economy or Mr Clinton self-destructs.

International Whaling Commission meeting

World's whales worth more alive than dead

By Bronwen Maddox, Environment Correspondent

Whales are worth more alive than dead, UK and US officials will argue when they meet in Mexico tomorrow ahead of the annual meeting of the International Whaling Commission.

Potential revenues from whale watching - an increasingly popular form of tourism - could soon reach several hundred million pounds worldwide, officials are likely to claim.

The issue is likely to be one of the flashpoints at this year's meeting, whose formal sessions begin next week.

The break-up of the IWC - which regulates the catching of the 12 species of "great whale" - is possible if growing disputes between whaling and non-whaling countries are not resolved, environmentalists have warned.

Iceland has already left the IWC in protest at the body's moratorium on commercial whaling, introduced in 1986. Last year Norway declared that it was not bound by the moratorium, while Japan con-

tinues to press for the ban to be lifted.

Countries with strong animal rights traditions, such as the UK and US, have begun exploring whether potential revenues from whale watching will prove a powerful enough argument to block the resumption of commercial whaling.

Controversy at this year's meeting will also focus on:

- Proposals for a whale sanctuary around Antarctica.
- Japan's demand for a quota of 50 whales to be caught in its coastal waters this year.
- The reliability of the "revised management procedure", the IWC's complex model of how many whales could be caught without damaging stocks.

Proposals for the southern sanctuary are officially sponsored by the UK, the US, France and Australia, but agreement may be elusive given fierce opposition from Japan and from some non-whaling Caribbean countries which have sided with Japan on past contentious issues.

The Japanese request for a 50-whale quota - in addition to its plans to catch around 300 whales for scientific research - will also attract opposition. Some countries argue that the quota, intended to help coastal villages, does not qualify as aboriginal whaling, which is permitted by the IWC.

However, the fiercest rows are likely to centre on the scientific model for "sustainable whaling".

Norway argues that the model, which has had years of development, would never allow so many whales to be caught that stocks would be jeopardised. However, the UK is pressing for more research, in the light of new evidence that the former Soviet Union seriously under-reported the number of whales it caught in the 1960s and 1970s.

Some non-whaling countries have indicated that even if the IWC approves the model they may not back commercial harvesting of whales. Methods for "humane" killing and for verifying the numbers caught still remain to be settled, they argue.

Gun crime rises sharply in US

Violent crimes committed with handguns set a record in the US in 1992, soaring almost 50 per cent from the annual average during the previous five years, *Reuters* reports from Washington.

The Justice Department said yesterday that handguns had been used in 351,000 murders, rapes, robberies and assaults in 1992.

This was up from an annual average of 234,000 from 1987 to 1991.

Handgun crimes accounted for an increased percentage - now about 13 per cent - of all violent crimes, it said.

The figures - from the department's Bureau of Justice Statistics - were released as the Clinton administration and Congress are considering new ways to restrict guns to cut down on rampant inner-city violence.

President Bill Clinton has already

signed into law the so-called Brady Bill requiring a five-day waiting period for the purchase of handguns.

He has also vigorously supported legislation banning a number of assault weapons.

Ms Janet Reno, the attorney-general, has advocated gun licensing and is considering whether to propose such a system nationwide.

The department's report said the number of murders with a handgun totalled 13,200 in 1992, a 24 per cent jump from the five-year average.

The murder numbers were based on FBI crime statistics. The other statistics, from a nationwide crime victims' survey, also showed dramatic increases for robberies and assaults involving a handgun.

The only crime category to show a decrease was rape, with handguns used in

11,800 cases in 1992, down from the previous annual average of 14,000.

The report also found that:

- Males were twice as likely as females to be victims of handgun crimes, and blacks three times as likely as whites.
- Young, black males were most vulnerable to handgun crimes. Among males, 16-to-19 years old, the most victimised age group, the crime rate for blacks was four times higher than for whites.
- For rapes, burglaries and assaults, the offenders fired their weapons in 17 per cent of the crimes and missed the victim four out of five times.
- Only 1 per cent of the violent crime victims used a firearm in an effort to defend themselves. Of those who used a weapon, one out of five suffered an injury in the incident.

Bentsen gives assurance on dollar

Mr Lloyd Bentsen, US treasury secretary, said yesterday the feeling that Washington was content to see the dollar drop in value was a "misrepresentation," *Reuters* reports from New York.

"There was a misinterpretation that we wanted to see the dollar go down," Mr Bentsen told CBS television. He said the Clinton administration "saw no value in undervaluing the dollar".

say outright that the administration opposed an increase in interest rates by the Federal Reserve, he said it should be determined "by the market and underlying economic factors".

He said that he felt short-term interest rates would be up one-half point by the end of the year to 4 per cent.

Referring to the Federal Reserve's two recent quarter-point rate increases, Mr Bent-

sen said: "It seems we have reached a point where no good [economic] numbers go unpublicised."

On Friday, Mr Bentsen said he shared the Federal Reserve Board's goal of promoting low-inflationary economic growth.

"Let me just say that Alan Greenspan [chairman of the Federal Reserve] and I share the goal of steady, well grounded, low inflationary growth," Mr Bentsen told the Business Council, a meeting

of top business executives. "I think that's what we have and the Fed is just being cautious to make certain it stays that way," he added.

Financial markets have been on edge anticipating more interest rate rises by the US central bank.

Mr Bentsen acknowledged that long-term interest rates have moved up in the past few months. "But it's worth noting that what's behind rates is growth," he said.

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A death to prompt French regrets

BRITISH POLITICS
By our correspondents

It is very rare for the death of a politician to be commemorated in an editorial on the prestigious front page of *Le Monde*, the bastion of the French political press: all the rarer if the deceased was foreign, not French, and in opposition.

Yet *Le Monde's* leader writers decided that John Smith, whose death was announced last night, deserved such a tribute and summed up their conclusions about the consequences of his sudden death in the headline - "British Disarray".

Mr Smith himself was described in a separate story in the flowery style characteristic of French journalism as "a devoted Presbyterian and opera lover... his sober appearance and heavy physique, hiding a surprising intellectual agility".

Le Figaro, the conservative daily, devoted nearly a page to "John Smith: Convincing and Competent". It also alluded to the more raffish side of the former Labour leader by noting, approvingly, that it was he who had ordered a bottle of champagne on the night before he died at the end of a meeting on the European elections with Mr Michel Rocard, the French socialist leader.

Libération, the left-liberal daily, also made reference to the champagne interlude. It quoted a Rocard aide as describing Mr Smith as having been "on good form, relaxed, cheerful, but also alert" on that night.

that there could be a Europe with Britain," he said.

The Japanese media generally reported the death of Mr Smith as a significant blow not only to the Labour party but to UK politics as a whole. The TV Tokyo network said the loss of Mr Smith, whose personal popularity was seen as a significant factor behind Labour's recent favourable ratings, has left the party in a difficult position. *Mainichi Shimbun*, a national daily - whose headline "Party Leader Smith Dies Suddenly" is printed above - foreshadowed the battle within the Labour party to succeed Mr Smith: "The death of Mr Smith is likely to have an effect not only on the Labour party but on British politics as a whole."

"The Conservative party chose Mr John Major as leader, after it was led by a very strong leader, Mrs Margaret Thatcher, and is always struggling with the problem of internal dissension. Similarly, it is questionable whether the Labour party will find a leader as strong as Mr Smith and it is possible that both the Conservatives and Labour will enter a leaderless period."

The UK Press Association headline, "John Smith's death stuns the world", may have been understandable, but it



John Smith: French approval for his champagne order

Alan Hawes

was also hyperbolic, at least as far as the US media was concerned. The main TV network Thursday evening news programmes all recorded Mr Smith's death, but relatively briefly and in the second half of their 30-minute broadcasts.

The leading newspapers treated the story respectfully. Both *The New York Times* and the *Washington Post* did not start their coverage on their

front pages beyond putting little boxes there drawing attention to stories in their foreign news sections.

The *Times* ran two items from its London bureau - a straightforward news story on the details of Mr Smith's death and reactions to the Labour and Conservative parties. The *Post* combined both

Mexican attorney general resigns

By Ted Baruchak
in Mexico City

Mr Diego Valadez, Mexico's attorney general, resigned abruptly at the weekend, the second justice minister to quit in the past four months. The resignation, announced without any official explanation, adds to the turmoil surrounding the administration of security and justice as the country prepares for presidential elections in August.

Mr Valadez had come under fire in the past weeks over the arrest of the Baja California deputy state attorney general, Mr Sergio Ortiz, on charges of collaborating with drug traffickers. Mr Ortiz is a member of the conservative National Action party (PAN), which interpreted the action, as well as Mr Valadez's refusal to investigate allegations of corruption they levelled against Mr Carlos "Hank" Gonzalez, the powerful agriculture minister, to be a declaration of political war.

The administration of President Carlos Salinas and his ruling Institutional Revolutionary party (PRI) can ill afford a fight with PAN, which has generally been a government ally. Mr Valadez may have been forced to resign in order to placate the opposition party.

A climate of insecurity, highlighted by the assassination of the PRI's presidential candidate, Mr Luis Donaldo Colosio, and a series of kidnappings of Mexican businessmen, also helped to damage Mr Valadez's public image.

Mr Valadez, according to aides, had his own problems with a lack of respect given to him and his post by Mr Salinas. The investigation of the Colosio assassination has been placed under a special prosecutor, while a new National Public Security Commission, which is run directly from the president's office and to which Mr Valadez had to answer, was formed less than a month ago.

The appointment of little-known Mr Humberto Benitez to replace Mr Valadez in the attorney general's office is a sign that most serious law and order issues, including the election, will deal with by the presidency.

In Mexican political circles, the circumstances surrounding the resignation, which are unlikely to go away with a simple change in chief personnel, were lamented more than the resignation itself. One newspaper, *La Jornada*, entitled its editorial "The Fraying of the Attorney General". Little by little, the editorial said, "the attorney general's function is wasted under a justice system overwhelmed by demand and a climate of corruption that permeates nearly all levels of the ministry."

Fears over...
Elbn boot...
Ex-SIB off...
criticises Ba...
on Crest sy...
Britain in brit...
Rover set...
for Sunday...
working...
More likely on...
booklikes...

Fears over 'softening' of competition policy

By Robert Rice,
Legal Correspondent

Senior officials at the Office of Fair Trading, the competition watchdog, are increasingly concerned that Mr Michael Heseltine's Department of Trade and Industry is softening its stance on competition policy.

The mounting frustration among senior competition policy officials is reflected at Westminster, where influential backbenchers are setting up a lobby group called The Competitive Forum to press for a tougher con-

sumer-oriented competition policy. The advocates of a tough competition policy believe the DTI and the Monopolies and Mergers Commission have relaxed policy to help create strong UK champions capable of competing in global markets, a policy advocated by Mr Heseltine, the trade and industry secretary.

The approach has been taken up by Mr Graeme Odgers, the MMC chairman, according to the critics. They argue the MMC is operating a competition policy tailored to the needs of business rather than the consumer.

Further evidence of the lower priority the DTI is giving to competition policy is the sharp reduction in the number of cases referred to the MMC, according to consumer groups and competition lawyers. Of the 113 mergers examined by the OFT since May last year, only three were referred to the MMC by Mr Heseltine.

He was expected to undertake the policy shift in his competitiveness white paper this morning. It has been postponed until next week, in a mark of respect for Labour leader John Smith, who died last Thursday.

Concerns that the MMC had gone soft on abuses of market power, which surfaced following the 1992 report on the supply of new cars have been rekindled by recent reports on Fine Fragrances and Ice Cream, which have left existing market positions intact.

Competition officials' fears that the MMC is increasingly putting the interests of industry ahead of those of the consumer, are likely to be reinforced next month when the MMC's report on the price of compact discs is expected to clear the record industry

of allegations of price-fixing. Mr Stephen Locke, Consumers' Association director of policy says the MMC's recent reports mean "the UK is regarded as a soft touch when it comes to abuses of market power and anti-competitive agreements."

Mr Odgers, the industrialist who took over as chairman of the MMC a year ago, rejects the accusation that the MMC has gone soft on competition. But he does admit to being "four-square" with Mr Heseltine's views on privatisation, competitiveness and deregulation.

Front-runner Blair urged to strike deal

By Philip Stephens,
Political Editor

Mr Tony Blair, the front-runner in the Labour leadership contest, was urged by supporters last night to strengthen decisively his candidacy by striking a deal with one of his leading rivals on the left of the party.

The suggestion came as Mr Blair, the shadow home secretary, and Mr Gordon Brown, the shadow chancellor, faced calls from friends among Labour's so-called modernisers to settle quickly their claims for the party leadership.

A clutch of weekend opinion polls confirmed Mr Blair's advantage over other contenders for the succession to Mr John Smith. But Mr John Prescott and Mr Robin Cook kept open the option of standing as "traditionalist" candidates.

Amid intense manoeuvring, the eventual outcome of the leadership election remained clouded by left-right differences and personal rivalries and ambitions.

Despite agreement by all the potential candidates not to campaign until after Mr

Smith's funeral on Friday, shadow cabinet members said informal soundings over the next few days would be critical in shaping the contest.

The behind-the-scenes bargaining has been complicated by the fact that many trades union leaders are reluctant to publicly endorse any particular candidate. The introduction of one-member-one-vote ballots will greatly reduce the influence of union executives.

The suggestion that Mr Blair might reach an agreement with one of the traditionalist candidates came as his supporters admitted that he needed to broaden the basis of his support in the party. Mr Prescott, shadow employment secretary, and Mr Cook, shadow trade secretary, have made it clear they would find it much easier to work with Mr Blair as leader than Mr Brown.

Mr Blair's candidacy was boosted by a string of weekend opinion polls suggesting that his leadership would have the broadest electoral appeal in the country. The polls, also indicated that Mr Blair had a significant, if narrower, lead among Labour party members.

£1bn boom time for the counterfeit cowboys

Counterfeited goods have reached "epidemic" levels in the UK, according to the Institute of Trading Standards Administration, which has launched a national data and intelligence service on counterfeiting crimes in an effort to curb pirated goods that could be costing Britain up to £1bn a year.

British counterfeiters are mass producing designer-label clothing, audio and video tapes, perfume, watches, computer software, leisure goods, toys, furniture, pottery and antiques.

With the trade marks bill entering its committee stage in the House of Commons tomorrow, companies and trading standards officers claim that

Jenny Luesby looks at the problem of consumer piracy facing Britain

The illegal copying of goods is set to continue as an unchecked boom industry dominated by organised crime.

Ten years ago the UK was a net importer of counterfeit products, with the goods seized in Britain nearly always manufactured elsewhere. Today industry estimates suggest that counterfeiting is costing Britain £1bn a year through a combination of sales lost to legitimate producers and retailers - about 100,000 lost jobs and lost tax revenues.

The record industry alone, for example, says that a quarter of all tapes sold are illegal copies.

A raid last month on a mill in Preston, Lancashire, found children as young as 11 packing suspected fake Giorgio Armani and Paul Smith jeans. A week's production was seized, with a street value of £500,000. It was estimated that the haul would have cost just £28,000 to produce.

Syndicates in both Manchester and London have also moved into the mass-production of counterfeit goods. With the recession having provided a pool of workers willing to take the risk of selling pirated goods, they also have access to ample street-trading networks.

Meanwhile, Britain's trade description, copyright, trade mark and theft laws - which make producing and selling copy-cat goods a criminal offence - are being enforced by 1,500 local authority trading standards departments which say they are over-stretched and have to cover a far wider remit than counterfeiting alone.

The Institute of Trading Standards Administration recently reported that three-quarters of 98 trading standards departments surveyed spent less than 10 per cent of their time on anti-counterfeiting work, with many spending 2 per cent or less.

When counterfeiters are taken to court, penalties are minimal, with prison sentences rarely passed down and fines usually lower than the value of the goods seized.

Also, last year the Court of Appeal ruled that street traders who identified their goods as fakes were not in breach of the Trade Descriptions Act. This brought a rash of disclaimers on copied audio and video tapes, which left the consumer wiser, but music and film companies less protected.

The trade marks bill is set to close the loophole on disclaimers, make enforcement obligatory on local authorities, and

increase penalties - moves which the government claims could save British companies £50m in the first year and an annual £50m in later years.

However, the resources available to enforce the new legislation remain the same.

The ITSA's national data and intelligence service hopes to identify counterfeiting rings and establish links with enforcers in continental Europe through Interpol to try to track down cross-border trade.

However, trading standards departments are under review as part of the local government review, and could be reorganised into smaller units, which, they claim, will make national co-ordination and specialisation even harder.

Ex-SIB officer criticises Bank on Crest system

By Norma Cohen,
Investments Correspondent

The Bank of England's handling of the Crest share settlement system has been sharply criticised by a former executive of the Securities and Investments Board, the City's chief regulatory watchdog, in an article published last week in a prestigious legal journal.

The article argues that paperless share settlement, due to be in operation by 1996 or 1997, could have been achieved more cheaply and quickly by augmenting the Stock Exchange's existing Talisman and Institutional Net Settlements systems. It argues that Crest is unnecessarily complex and that it creates additional risks that do not currently exist in share settlement.

The approach outlined would have left the Stock Exchange broadly in control of share settlement and left no visible role for the Bank of England.

It is understood that the article, originally submitted last autumn for publication in Butterworths Journal of Inter-

national Banking and Financial Law, was withdrawn at the request of the Bank of England which wanted it delayed at least until after an important Crest task force report was published in February. The author of the article, Ms Kathleen Tyson-Quah, who was an assistant director in SIB's capital markets division, resigned from the SIB in March.

The SIB has declined to comment on the article specifically. However, it said: "We believe the Crest project is progressing successfully but we don't wish to make any further comment because we have a formal recognition role under the Financial Services Act."

In the City, the Bank has generally won praise for its handling of Crest, particularly for its willingness to consult widely. The article, which makes clear that its views are those of the author personally, is the first public criticism of the Bank's efforts.

The Bank began setting up Crest immediately after the collapse of the Stock Exchange's own Taurus project for paperless share trading.

Britain in brief



Rover set for Sunday working

Rover Group is to introduce Sunday working at its Longbridge plant near Birmingham from next weekend in order to raise output of its 200/400 lower-medium sized car range.

The six-hour shift, to be worked by existing employees on overtime, is intended to raise production by 5% per cent, to 4,750 cars a week.

Rover, now owned by German executive car maker BMW, said at the weekend that the increased production is to meet higher demand in both the UK and several large Continental markets.

The Sunday working programme will continue until the beginning of August, when the situation will be reassessed in the light of demand.

Rover was the only car maker to increase sales in Western Europe's slumping car market last year. In the first quarter of this year 200/400 sales rose by 15 per cent in the UK, to 23,302, and Continental sales by a similar percentage, to 55,574.

Move likely on 'lookalikes'

The Department of Trade and Industry will today announce the results of consultation examining how the government should deal with the problem of supermarket "lookalike" products.

Mr Patrick McLoughlin, the minister responsible for technology, has been asking brand manufacturers if they believe protection for brand names against lookalikes should be offered in amendments to the trade marks bill or whether new legislation on fair trading would be more appropriate.

The British Producers and Brand Owners Group, whose members include Coca-Cola, Colgate Palmolive, Gillette, Mars, Nestlé and Procter & Gamble, has persuaded Mr Hugh Bayley, Labour MP for York, to put down an amendment to the bill which would offer brand names extra protection against lookalikes.

Direct Line credit card plan

Direct Line, the telephone insurance company owned by Royal Bank of Scotland, is considering launching a credit card as part of its attempt to step up sales of other financial services products to its customers.

The move could lead to stiffer competition among credit card issuers because of Direct Line's ability to use its customer database to target lower risk card users.

Car manufacturers including General Motors and Ford have also issued credit cards which offer users savings on the purchase of new cars. But although these cards have been successful, large banks still dominate the market.

Direct Line is to launch a pilot scheme to begin to sell mortgages in the summer and plans sales of simple protection type life insurance products next year following the expected authorisation of its life insurance subsidiary.

Direct Line already has more than 1.5m customers for its motor insurance policies, a market share of about 8 per cent.

The sun also rises. All he ever dreamed of growing up in Detroit was managing his own machine shop. Then one day he came to The Valley. And he had a vision. He saw a future where the network, not the PC, would be king. The workstation its mighty servant. With iron discipline (and a bag full of hockey sticks) he set out to build a new empire. Today Sun Microsystems is a multibillion-dollar giant in Silicon Valley. And just minutes from the local ice rink. **Scott McNealy is just one of over 857,000 top American executives who read Forbes.**

Forbes
CAPITALIST TOOL

Delays at UK airports are being reduced, writes Jenny Luesby

Push for punctuality

Airport delays are to business travellers what traffic jams are to city drivers: infuriating, unpredictable, but inevitable.

No more, says Britain's National Air Traffic Service, the body responsible for organising UK air traffic control.

With an announcement due from the government on whether the service will be privatised, NATS has become aggressively consumer-oriented. It is reorganising flight paths, introducing more flexible take-off and landing procedures, and upgrading technology – all in a concerted effort to eliminate hold-ups.

In a programme that began in early 1993, NATS has cut average delays on scheduled flights from Heathrow to nine minutes last year, from 20 minutes in 1992. The average delay on morning commuter flights from UK domestic airports was 3.8 minutes last summer, down from 20 minutes in the summer of 1992. Delays on chartered flights have also been reduced.

The service now looks on its past indifference to delays with disdain. "There was a problem in our attitude before," says Mr Derek McLauchlan, NATS chief executive, "in that we thought we knew what was possible and we were satisfied with that. But following the management reorganisation of two years ago, we took a more proactive stance, and found that many of the problems were solvable."

Many solutions have been simple. One problem was the early morning influx into British airspace of some 400 transatlantic flights, which tended to hold up departures from Glasgow, Belfast and Manchester. "We instructed flow man-

UK airports: waiting time shrinks

Average delays to scheduled flights (minutes)

	1990	1991	1992	1993
Heathrow	20	16	14	9
Birmingham	15	13	13	5
Gatwick	25	19	18	15
Luton	29	23	22	11
Manchester	15	11	9	5
Stansted	18	12	9	5

Average delays to charter flights (minutes)

	1990	1991	1992	1993
Birmingham	50	38	33	21
Gatwick	62	49	43	38
Luton	54	49	42	30
Manchester	55	40	41	31
Stansted	60	38	48	28

Average delays to all services at the six airports (minutes)

	1990	1991	1992	1993
Average delay	27	20	18	12

Source: Civil Aviation Authority

Graphic: R. H. H. H.

agers to be more careful about transatlantic tracks, so as not to block domestic take-offs, and delays were cut at a stroke," says Mr McLauchlan.

In addition, a computer link from Canada is giving London Heathrow controllers 4% hours' notice of transatlantic traffic into UK airspace, making it easier to tailor routes.

Routing clashes caused by the limited number of air tracks, or flight paths, are also being addressed. The Civil Aviation Authority, of which NATS is an agency, is implementing a £750m investment programme to increase airspace capacity over south-east England by 30 per cent from 1995, and capacity for en route flights over England and Wales by 40 per cent from 1996.

However, airspace is only part of the problem. With the CAA forecasting a doubling of air passengers in Europe between 1992 and 2005 – increasing passenger flights by 55 per cent – airport infrastructure is also a constraint.

The British Air Transport Association, representing UK airlines, argues that take-off and landing slots are so fully booked that a new London runway is essential.

However, NATS has been tackling the issue in a different way. Last year, it introduced a free-flow system between Heathrow and Charles de Gaulle airport, Paris. Normally, airlines must book slot times for their departure, their air track and their arrival. Mismatches cause delays, which

put rescheduling pressure on the congested take-off and landing slot timetables. Under the free-flow system, aircraft can leave whenever their departure slot permits, without needing an air track slot.

As a result, British Airways reported a fall of 94 per cent in delays from Paris to London, and of 47 per cent from Heathrow. Air France said delays had been cut by 97 per cent from Paris and 98 per cent from London. Trials have begun on other routes.

NATS is also investigating how Heathrow's two runways could be used more efficiently. If all goes well with its plans, the service's ingenuity will go unnoticed this summer – as travellers pass through departure lounges without delay.

With its latest ticket code-sharing and marketing agreement with Air Canada, British Midland Airways, the UK's second largest scheduled carrier, is extending its net of international co-operation agreements to compete against its much bigger rival, British Airways.

The Air Canada move follows a string of other code-sharing deals – which enable two airlines to use each other's ticketing code on each other's flights, making arrangements simpler – and commercial agreements between British Midland and bigger international carriers. These include the two biggest US carriers, United Airlines and American Airlines, as well as Japan Airlines and All Nippon Airways.

British Midland also co-operates with Virgin Atlantic and is planning a code-sharing agreement with Malaysian Airlines later this year. "We are also working with South African Airways over possible co-operation," says Mr Austin Reed, the airline's managing director.

Although British Midland has steadily been expanding its own international operations, Mr Reed emphasises that the airline is continuing to concentrate on developing its European short-haul route network. "Any plan to expand into longer-haul flights are at this stage very much in the future," he adds.

The growing number of international marketing alliances are part of British Midland's efforts to offer its passengers services comparable with those offered by BA. British Midland's attraction for its international partners is its strong position at London's Heathrow airport, where it has built up the second biggest pool of take-off and landing slots – 14 per cent – after BA, which has about 38 per cent.

British Midland's strong position at Heathrow was one of the main reasons behind Scandinavian Airlines

Setting sights high

Paul Betts on the competitive strategy of British Midland



Sir Michael Bishop: vociferous

Systems' decision to buy a 35 per cent stake in the UK carrier. SAS is expected to increase its holding to 40 per cent this summer.

In Europe, British Midland has challenged the big flag carriers by taking advantage of the newly liberalised air transport market and driving down business-class air fares on five of the busiest routes it serves from Heathrow: Paris, Frankfurt, Dublin, Brussels and Amsterdam. Sir Michael Bishop, chairman, claims that, where his company has taken on the big European airlines, business air fares have fallen by about 40 per cent.

The problem, he says, is that

95 per cent of European Union air routes continue to be operated through state-owned airline monopolies or duopolies. "Only 26 routes are served by more than three carriers. Of the 15 busiest cross-border routes in Europe, 10 continue to be served only by the two national airlines of the countries concerned."

Real fare competition has occurred only on routes served by at least three carriers. Where just two carriers serve a route, their tendency is to offer similar frequencies, provide similar services and apply identical fare structures.

Sir Michael is also a vociferous campaigner against state aid for airlines, which he argues is continuing to help prop up bankrupt carriers, distorting competition in the European market. "A number of smaller airlines are going bust, while the bigger companies which are really bust are being allowed to carry on through artificial supports."

British Midland, like other UK carriers including BA and Air UK, has lobbied against French government proposals to inject a further FF20bn into Air France.

It is also angry over the French government's decision to try to stop UK airlines flying today into Orly, Paris. But unlike BA or Air UK, British Midland has decided not to seek an immediate confrontation with France. Instead, it intends to start flying from Heathrow into Orly in September, when it hopes the dust will have settled.

In the longer term, British Midland sees another threat emerging from the Channel tunnel. "We expect it will lead to a drop in some short-haul air traffic," Mr Reed says. British Midland is thus already drawing up plans to serve longer-distance European routes which would not face direct competition from the tunnel, to maintain the momentum of its steady international expansion in the European market.



Swissair ahead – confirmed

Anyone who has ever been bumped from a confirmed homebound flight will cheer the news that Swissair is abolishing the annoying requirement to reconfirm return flights from June 1. The alleged purpose of reconfirmation is to give the airline a destination contact number so it can warn passengers of a substantial delay or cancellation of the return flight, although it has never been clear why the absence of such a number should entitle the airline to cancel a confirmed booking.

Swissair said it already kept in its reservation system a home contact number for its passengers and often the name of the destination hotel. From now on, it would start asking for a destination contact number when bookings were made so reconfirmation would no longer be necessary.

Was the airline worried about "no-shows"? "We always worry about no-shows," a spokesman said. But he doubted that the problem would worsen as a result of the abolition of reconfirmation.

Belgium bound

The Channel tunnel's formal opening earlier this month, provoked much discussion about the future of travel between the UK and France, writes Mike Skapinker. A less widely noted consequence of the tunnel's opening was that there will be rail services between London and Brussels.

A monthly guide to all air and sea crossings and fares between the UK and Belgium is now on sale for an annual subscription of £44.50. Rail services will be included as they become available. The guide is available from Cross Channel, PO Box 347, London WC2A 1QD.

Time is money

Airport shoppers are to be courted even more aggressively by the British Airports Authority, in its effort to turn the time that travellers spend at airports into revenues for BAA.

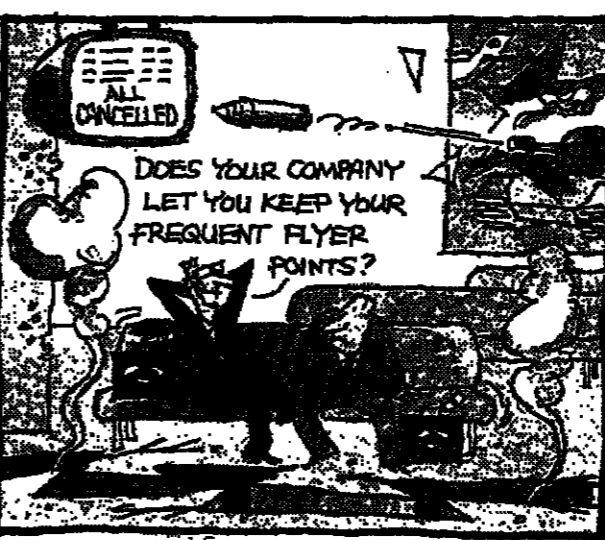
For travellers in two minds over making impulse purchases, BAA has announced a Worldwide Guarantee scheme. This offers "no quibble" refunds on products bought at any of BAA's seven UK airports, whether they are faulty or simply unwanted.

Advice on how to spend money and fill shopping time will also be available from help desks at all BAA airport terminals. And for the forward planner, BAA has introduced a Freephone shopping line (0800 844844) to allow travellers to check on items in stock and reserve or order goods.

A freephone address for the Worldwide Guarantee, and postage refunds to users outside the UK, will give travellers "the confidence to buy goods in the knowledge that if they are not satisfied for any reason they will get their money back, no questions asked," according to Sir John Egan, BAA's chief executive.

And why is BAA so keen to win shoppers' confidence – even at the price of making refunds later? "The money we make from people shopping at the airports is ploughed back into providing new facilities for all our customers," says Sir John. "This means that passengers win both ways."

As so, presumably, does BAA.



A trip abroad is no holiday

Many staff feel entitled to keep perks, says Michael Skapinker

My recent article on this page asking whether business travellers should give their frequent-flyer points and cash rebates to their employers ("A partiality for perks", April 25) attracted the following riposte from a reader in Suffolk: "The fact that you have written the article at all is evidence of the common view of those left behind at the office, that leaping on to an aeroplane means that one is going on holiday."

"The serious business passenger is the victim of every inconvenience afforded by airlines, datelines and civil disturbance. He or she should be the beneficiary of any advantage, personally."

The majority of respondents held this view. A business traveller from Volkswagen said: "Why should the company penalise travellers and take away their little innocent pleasure of accumulating perks that they won't be able to use anyway? Remember, when they are on vacation they want to stay at home, not fly again."

A reader from the Netherlands added: "I hope you will also leave us with the benefit of another perk – the copy of the FT we receive on board."

However, one senior executive wrote: "Imagine if BA said: 'Choose our routing and flights for your next business travel purchase – even though they are a bit more expensive than the competition – and we will give you money in a brown envelope, addressed to your home.' Unarguably, a case of significant bribery."

Yet staff have no qualms about air miles. Travel agents will tell you that executives will practically kill to gain air miles. Please don't attribute any quotes to me. I am in a minority of one, it seems."

Not quite. A substantial minority made the same point, adding that the company should also receive any cash rebates paid to travellers. One respondent wrote: "Any time

spent travelling is working time, paid for one way or another as part of the contract of employment. If some of this time is wasted and there is compensation to be had, then the compensation belongs to the owner of the wasted time – the company."

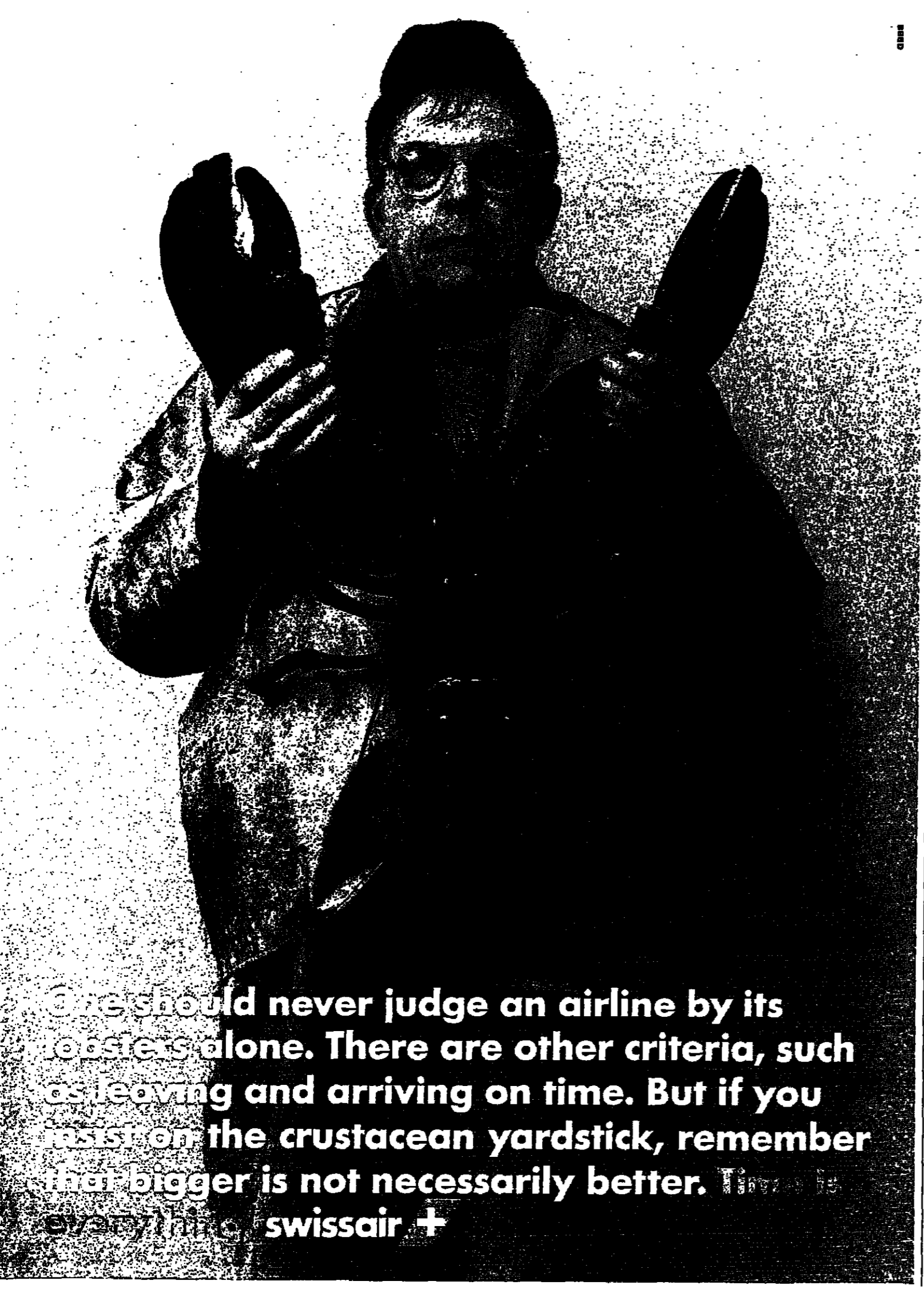
Mr Geoffrey Budd, company secretary of Dixons, the electrical retailer, asked whether travellers who accepted frequent-flyer points or cash compensation could experience legal difficulties. "Where there is an obligation not to make a secret profit and therefore he should account to the employer for all such benefits," Mr Budd wrote.

"If, as a matter of corporate practice (whether articulated or adopted by default), employees are allowed to retain these benefits, they are presumably disclosable to the Inland Revenue and liable to income tax. This may be less important so far as free flights are concerned, but could be significant in relation to cash compensation."

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	☁ 22	☁ 19	☁ 27	☁ 24	☁ 24
Hong Kong	☁ 31	☁ 31	☁ 32	☁ 32	☁ 32
London	☁ 17	☁ 18	☁ 14	☁ 18	☁ 18
Frankfurt	☁ 27	☁ 23	☁ 21	☁ 21	☁ 23
New York	☁ 24	☁ 18	☁ 16	☁ 14	☁ 18
L. Angeles	☁ 21	☁ 19	☁ 21	☁ 23	☁ 25
Milan	☁ 23	☁ 24	☁ 22	☁ 24	☁ 25
Paris	☁ 22	☁ 20	☁ 19	☁ 19	☁ 21
Zurich	☁ 25	☁ 21	☁ 16	☁ 14	☁ 21

Maximum temperatures in Celsius. Information supplied by Meteo Consult of the Netherlands.



One should never judge an airline by its prices alone. There are other criteria, such as leaving and arriving on time. But if you fasten on the crustacean yardstick, remember that bigger is not necessarily better. Time is money. swissair +

Japan culture shock

YOU WON

Japan culture shock

For Nick Collins, licensing controller of Fringle of Scotland, it was an opportunity to become "immersed in an alien culture", learn a "horribly difficult" language, and find out about management styles on the other side of the world.

Collins is one of more than 500 young managers who has benefited from the European Commission's Executive Training Programme in Japan - a 15-year-old scheme that aims to develop the presence of European companies in the Far East. Last week 40 more Europeans headed east to start the intensive 18-month course, of language training, factory visits, culture and business seminars and a secondment to a Japanese company.

Initial screening is carried out across the European Union by PA Consulting Group, with the final assessment in Brussels by the Commission (which pays the training costs and living expenses). Successful candidates range from managers in companies with sales as low as £2m to multinationals such as Royal Insurance and Michelin. Law firms, software companies and electronic components suppliers are among those represented in the latest group.

"All these companies are currently doing business in one way or another already with Japan, although often in very small volumes," says John Patrick, PA's recruiter. Up to 70 per cent of "trainees" are still directly or indirectly involved with EU/Japan trade and almost 50 per cent are living in Japan. Fringle's Collins believes participants will get more out of the programme if they do a stint with their company in Japan when the course has ended. "It's a country that changes very quickly, it is easy to lose track."

Recruitment details from PA's John Patrick, 128 Buckingham Palace Road, London SW1W 9SR. Tel: 071-730 9000, Fax: 071-333 5850.

Tim Dickson

What do Bill Clinton and Bill Gates have in common apart from being at the top of their respective trees and having the same first name?

Both are married to colleagues. They are members of a club that includes Anita Roddick of Body Shop, Michael Green of Carlton Communications, and Derek Bonham of Hanson on its rapidly growing membership list. Some couples met through their work, some met first and then found a job for their partner, and some set up a business together. All are evidence of the same trend: business and pleasure are being mixed on a scale never seen before.

A recent survey by Alfred Marks employment agency shows that 60 per cent of employees have had an office romance, and half of these ended in wedlock or in cohabitation. A similar study in the US suggests a staggering 70 per cent of a cross-section of employees have had a relationship with a colleague.

In the old days bosses dated secretaries. As greater numbers of women are working in increasingly senior positions, men are marrying their equals at work. At British Airways, pilots used to wed air hostesses, yet next month the first husband and wife team of captains will be created when Jenny Fray and Steve Pock get married.

Traditionally, an office marriage was a signal for one partner to leave the company. Now there is less pressure to choose between job and spouse. Melinda French, who married Bill Gates, evidently feels no conflict between being the boss's wife and being a Microsoft manager. She is carrying on with the company as before.

Work romances are a mixed blessing for companies. "These relationships are an extra complication in the working environment," says Susan Bloch of career consultants GHN. "Companies need to be very sensitive about it or they can get into a mess."

Many companies say there is no policy because there is no problem. But research from Strathclyde Business School suggests that middle and senior managers in UK companies still disapprove of office affairs.

Companies that decide to take the ultimate sanction and fire one or other partner may be breaking the law. An office romance can only be grounds for dismissal if the employee's conduct is disruptive, or threatens to harm the employer's business. If a couple marry, one partner can only be dismissed if it can be proved that their continued employment would be impracticable, and the rules forbidding marriage are both reasonable and clear.

An industrial tribunal recently upheld the dismissal of a senior manager of a small UK company



Rings on their fingers: Bill Gates, Microsoft chairman, greets wedding reception guests with wife and employee Melinda French

Cupid's arrow across the desk

Lucy Kellaway on reactions when colleagues fall in love

called Alarico. He had been engaging in bizarre feats including a toast and jam fight with his secretary, with whom he was having an affair. In another case Ann Tomen, a marketing assistant with Irish Bording, was fired after her husband, who also worked there, left to work for a competitor. She contested the case, but a tribunal ruled that her sacking was fair.

Despite romances that end in tears, most office affairs cause little trouble. The majority view among UK companies is that relationships between members of staff are both inevitable and beyond the scope of corporate involvement. NatWest is typical in having no policies at all. "It's just not a problem," says the company.

At the other extreme are some US corporations which forbid employees from dating. According to Michael Rubenstein, editor of Equal Opportunities Review, some companies have taken this route to protect themselves from litigation.

He says office romances raise several thorny issues for businesses. The first is sexual harassment. "The concern is that if you have a relationship that goes wrong, and one party wants to continue, you have a ready-made case of sexual harassment," he says.

A further problem is conflict of interest. This can arise if the couple work closely together. Some employers think this problem sufficiently serious to have rules to keep couples apart. At Arthur Andersen couples are not allowed to work in the same business unit. "The basic policy is that partners should never be in the position where one supervises the progress of another," says the company, adding that the rule applies not just to couples but to members of the same family.

McGraw Hill takes a slightly more flexible approach. "We deal with every situation on its merits. Where there may be a potential conflict, we review it," the company says. "It is an issue if the man is married to someone more junior in the department, and others think the partner is getting more favourable treatment. If that person isn't a good performer, it could be harder for their husband to talk to them."

For most companies there is much to be said for doing nothing. "We know that people are more likely to meet their partners at work than anywhere else. Usually it means more loyalty not less," says Angela Baron of the Institute of Personnel Management. "The only time there is a problem is when people fall out. If that creates an

atmosphere it should be dealt with under normal performance management techniques."

There is some evidence that couples can be an asset rather than a potential problem. American research shows that morale and absenteeism improve when a workplace romance is in full swing.

David Norburn, director of the Management School at Imperial College and his wife Sue Birley are a veteran career couple. Over the past 23 years they have held jobs together at six different business schools and universities, but found some more accommodating than others. "A bad response is the fear factor of the power of two people working together. A good response is that a couple gets up to speed more quickly. One plus one equals more than two," says Norburn.

In his latest job at Imperial, he is her direct boss. He admits that there is a danger that some colleagues could suspect favouritism, just as there is a similar risk that he might be unfairly severe on her. He thinks these problems are minor compared to the advantages. "The real plus is that you can gossip about the same people."

Others might complain that dinner at home is not much different to lunch in the staff canteen.

More power to the team

Christopher Lorenz explains why managers do not always know best

Performance measurement systems for multi-functional teams should not be designed by managers, but by the teams themselves. Nor, except in extreme circumstances, should managers intervene when measures show that problems are developing; the teams should be left to take the necessary remedial action themselves.

These are two of the many far-reaching changes which companies must make, according to Christopher Meyer, an American consultant, if they are to succeed in the popular attempt to replace their traditional "functional" (departmental) structures with cross-functional, or "process-focused" organisations.

Many executives have not yet even realised that they need new types of measures if multi-functional teams are to succeed, Meyer claims. But even where this need has been recognised, managers often use the new measures to reinforce their own power, rather than that of the teams, he argues in an article in the latest Harvard Business Review.

A measurement system designed to support a process-based organisation should help teams overcome two basic obstacles to their effectiveness, says Meyer: getting functions to provide expertise when it is needed; and getting people from different functions on a team to speak a common language.

As Meyer argues, traditional measurement systems fail to solve these problems in several respects. First, their primary role is to pull "good information" up the organisation, so that senior managers can make "good decisions" that flow down it.

To that end, such relatively independent functions have its own set of measures. Marketing tracks market share, operations watches inventory, finance monitors costs, and so on. Such "results measures" tell the various parts of an organisation where they stand, but not how they got there or what either they or the organisation as a whole should do differently. As Meyer puts it, the few cross-functional "results

measures" in most organisations are financial: revenues, gross margins, cost of goods sold, capital assets, debt and so on. They "exist only to help top managers".

By contrast, "process measures" monitor the activities throughout an organisation that produce a given result. They are essential to help cross-functional teams deliver an entire product or service, such as order fulfilment or product development.

Staffing is a far more helpful measure than most companies realise, he suggests. If it covers not just the number of people, but also the years of experience in main job categories, it can have a marked effect on a team's performance, he says. If particular staff are missing at a particular stage in a project, time-consuming and expensive problems arise later.

Contesting the popular view especially in the US - that "what gets measured gets done", Meyer advises strongly against the temptation to pile measure upon measure. Otherwise, team members end up spending too much time collecting data and monitoring their activities, and not enough time managing their projects. In general, a team should have no more than 15 measures.

Meyer illustrates his warnings against relying on traditional measures, and also against managers using a team's measures to reinforce their own control, with episodes that have occurred at Ford in the US. In one case, the result of executive intervention in a product quality project was frustration for team members and managers alike, and also delay.

Meyer fails to explain how an organisation can avoid incompatibility and chaos when it allows teams of various shapes and sizes to design their own measures. But his overall message is powerful all the same: that "managers must never make the mistake of thinking that they know what is best for the team".

*How the right measures help teams excel. Reprint no 94306. Fax (US) 617-495-6985.

YOU WON'T BELIEVE YOUR

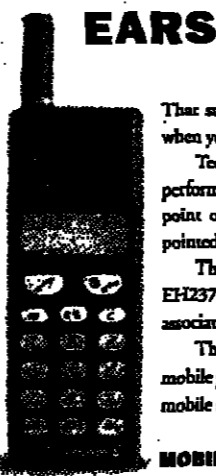


Just a quick glance at the Ericsson EH237 will tell you that this is a mobile phone with a lot going for it. Small, compact and obviously well designed, as you can see. And, on closer inspection you'll discover it's many other attributes.

It has an illuminated keypad and a 199 name/number memory with instant access to emergency and directory enquiry services. Plus there's a choice of security and call barring options, call times and total call counts, automatic recall and last six-number redial.

So your eyes obviously don't deceive you. But you might think your ears do. Listen, can a mobile phone really sound that good? In a word: yes.

Partly it's due to something you'll already have noticed.



That stubby little aerial which you don't need to pull up when you make or receive a call.

Technically it's a helical antenna offering parabolic performance. But you won't want to know that. From your point of view it simply means that it works just as well pointed in any direction. The signal stays constant regardless.

The attention we paid to the sound quality on the EH237 even extended to developing the earpiece in association with a hi-fi manufacturer.

The result you can hear for yourself at your nearest mobile phone dealer. Believe us, we doubt you'll find another mobile as easy on the ears.

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CONTRACTS & TENDERS

PROCUREMENT OF CONSULTING SERVICES FOR CONCESSION OF INTERNATIONAL AIRPORTS' OPERATIONS AND ADMINISTRATION IN ECUADOR

THE GOVERNMENT OF ECUADOR has initiated the process of modernizing its airport administration and operations activities. The Government is seeking expressions of interest and brief Statements of Qualifications from consortiums of legal, technical, accounting, and investment banking and promotion firms with experience in the design and establishment of concession contracts for the operation and administration of airports.

THE REFORM PROGRAM will be implemented by the National Council for the Modernization of the State (CONAM) in coordination with the National Civil Aviation Authority. It would include separate concession contracts for the administration and operations of Guayaquil and Quito's International Airports.

INTERESTED CONSORTIUMS ARE REQUESTED to send, through a sole representative, any readily available information demonstrating private sector participation experience in airport administration. Please send Statement of Qualifications in English or Spanish, including Curricula Vita of staff that could be assigned in Ecuador and client references of recently completed projects to the address below prior to May 31, 1994.

Mr. MARCEL LANIADO DE WIND
NATIONAL COUNCIL FOR THE MODERNIZATION OF THE STATE
JUAN LEON MERA 130, 9th. Floor
QUITO, ECUADOR
FAX: (5932) 508-437

INVITATION FOR BIDS

The Ministry of Public Order of Albania invites sealed bids for the purchasing of the New Albanian Passport, with budgetary funds, through International and Local Competitive Bidding.

Total need will be 2 million pieces, from which 700,000 in the first year, accompanied by the equipment for computerisation printing and laminating.

Cost of Bidding Documents USD 200.

Bidding Documents can be obtained from Trade Relation Department of MPO on submission of a written application and upon payment of the mentioned non refundable fee into the account no 1388/107/01, maintained by the MPO at the National Commercial Bank of Albania-Tirana/Albania.

These documents will be available from the Trade Relation Department and can be obtained from the same, every day from May 20, 1994 at 12:00-15:00.

Bid submission deadline and public bid opening date: June 30, 1994, 12:00 Midday at MPO.

Bids will be opened in the presence of those bidders representatives who may choose to attend at above mentioned date.

Further information can be obtained from:

TRADE RELATION DEPARTMENT/MPO
Mr Arben Kellipi
Tel: +355 42 26801 3255
Fax: +355 42 27520

LEGAL NOTICES

NOTICE TO SHAREHOLDERS OF MLH REALTY INVESTMENTS VI N.V.

Notice of the Annual General Meeting of Shareholders of MLH REALTY INVESTMENTS VI N.V. (the "Company") is hereby given. The meeting is to take place at 11:30 a.m. on May 30, 1994 at the registered office of the Company, 6 John B. Gorsiraweg, Curaçao, Netherlands Antilles. The agenda of the meeting is set forth below.

AGENDA

Annual Meeting of Shareholders of MLH REALTY INVESTMENTS VI N.V.

1. Report by Board of Supervisory Directors on the course of business of the Company and on the administration conducted during the fiscal year ended November 30, 1993.
2. Discharge and subsequent re-election of the Board of Supervisory Directors.
3. Report by the Board of Managing Directors on the course of business during the fiscal year ended November 30, 1993.
4. Presentation of the Net Result of the period December 1, 1992 through November 30, 1993.
5. Confirmation and adoption of the Balance Sheet and Profit and Loss Account for the period ended November 30, 1993 and as presented in the report of the accounting firm of Ernst & Young dated April 20, 1994.
6. Discharge and subsequent re-election of the Board of Managing Directors.
7. Selection of independent auditors.

Shareholders, by executing the subscription agreement for their shares have executed a discretionary proxy in favour of Yvomanite Corporation N.V., authorizing Yvomanite Corporation N.V. to vote the investor's shares. This proxy may be revoked either personally at the General Meeting of Shareholders or by written notice to Yvomanite Corporation N.V. 6 John B. Gorsiraweg, Curaçao, Netherlands Antilles, received prior to such meeting. Shareholders have the opportunity to instruct Yvomanite Corporation N.V. as to the voting of their shares by writing to Yvomanite Corporation N.V. at the above address.

MLH REALTY INVESTMENTS VI N.V.
BY: MeesPierson Trust (Curaçao) N.V.
Managing Director

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Market v state in education

American parents are voting with their children's feet. Despairing at the quality of public (government-run) schools and either unable or unwilling to pay for private tuition, many now prefer to teach their children at home. Nearly 500,000 children - 1 per cent of the school-age population - are taught at the kitchen table compared with only about 15,000 in the early 1980s.

The "home-schooling" fad in the US is an extreme example of a global trend: parents in most industrial countries are demanding a greater say in how their children are educated. In the past only a minority of wealthy parents actively sought the best schools (often private) for their children. Most families were passive consumers of education, allowing local educational authorities or school districts to assign their children to a school, usually the nearest. On matters of curriculum, teaching methods, discipline and so forth, parents typically deferred to the superior wisdom of educational "experts."

This age of educational deference is now passing, as *Schools: A Matter of Choice*, a report by Mr Donald Hirsch of the Paris-based Organisation for Economic Development and Co-operation makes abundantly clear. He examines six countries - the US, England, Sweden, the Netherlands, Australia and New Zealand - and finds that, to different degrees, all are experimenting with policies to expand parental choice, enhance the range of educational options and devolve power to school principals.

Some countries - such as Sweden - have increased choice by offering substantial subsidies (85 per cent of the cost of education in the public system) to parents who select private schools. Others, such as England, have opted to expand choice within the public sector by allowing open enrolment and through financial rules allowing money to follow pupils. In the US, school districts have widened parents' options by supply-side measures: the deliberate creation of "magnet" schools - schools that offer specialised education by concentrating on, say, sci-



MICHAEL PROWSE
ON
AMERICA

ence or the performing arts.

Teachers will find much to admire in Mr Hirsch's report, which exploits the OECD's unique ability to make cross-country comparisons. He illustrates the global pressure for greater choice with 16 "case studies" that describe reforms on the ground in cities as diverse as Haarlem in the Netherlands, Whangarei in New Zealand and Milwaukee in the US. And he seasons the factual analysis with a thoughtful commentary on the theory behind greater competition in education.

To my mind, however, the tone of the report is disturbingly collectivist. He argues that parental choice may not lead to greater educational pluralism because schools "may compete to deliver the same thing". He claims that research cannot demonstrate that choice raises educational quality because the effects of other relevant differences between schools cannot be separated out (on this criterion no economic research would reach a conclusion). And he gives credence to educationalists' self-serving claims that parental choice can inhibit their ability to set priorities. In typically wishy-washy OECD style, he concludes it is beyond the report's scope to decide "whether greater choice of school is a good or a bad thing".

Well, this reader can decide. Greater choice of school is indisputably a good thing. To bring home the absurdity of the traditional restrictions, imagine that the same policies were adopted for other educational media such as books.

Suppose, with the exception of a small "private" sector for the rich, all books were pro-

duced by teams of government employees and supplied free of charge to grateful families. By analogy with public schooling suppose further that each family was allocated only the books produced by bureaucrats in its local "book authority" or "book district". Under such a system books would surely be of uniformly low quality, although the bindings might be fancier in richer areas.

Now imagine that a bold educational reform is proposed: book choice. Instead of being forced to read the books produced by their local book authority, families can choose books from any book authority. Moreover, since reformers also stipulate that "money follows books", the revenue earned by each book authority now depends on the number of books it "sells".

Families will obviously benefit from this expansion of choice (which corresponds roughly to the enhanced choice of school now allowed in England). But sceptics such as Mr Hirsch may well claim that it cannot be proved statistically that average book quality has risen. They will worry that middle-class families are taking more advantage of the increased choice than poor families. And they may complain that since all the book authorities are competing to provide the same types of books, the extension of choice is illusory.

In a sense the objections are valid. Since with the exception of the small private sector all books would still be produced by teams of government employees, the range of choice would be limited. Yet we all know the solution: liberalise the book market completely. Let anybody write a book. Let book sales be determined by public demand. If some poor families cannot afford books, then give them book vouchers or cash subsidies. Do not make the mistake of thinking that since everybody ought to read books, the government should seize control of 95 per cent of book production.

I do not claim there is an exact analogy between books and schools as educational vehicles, but it is close enough to demolish arguments against greater choice in education.

Lloyd's of London is going through what its iconoclastic deputy chairman, Mr Robert Hiscox, refers to as its annual "mid-year wobble".

For the fourth spring in succession the insurance market's future has been brought into question by the prospect of another devastating loss for hard-pressed Names, the individuals whose personal assets have traditionally supported the market. The forecast £2.5bn loss for 1991, which Lloyd's will report tomorrow in line with its system of reporting three years in arrears, would bring the cumulative loss since 1988 to more than \$8bn.

The 1991 loss is substantially greater than predicted by Lloyd's last year and is the latest in a number of blows to hit the market in the past six months which together make Mr Hiscox's "wobble" sound like an understatement.

● In February, Names seeking compensation for losses of some \$50m rejected an out-of-court settlement worth £900m which had been negotiated under Lloyd's auspices. Their decision set the scene for a succession of court cases. The first and biggest of the current round is being fought by 3,095 Names belonging to Gooda Walker syndicates, one of the worst performing businesses at Lloyd's in the late 1980s.

● Two separate reports have suggested that Lloyd's exposure to multi-billion-dollar asbestos and pollution claims in the US will far exceed the insurance market's reserves. The latest report, published last month by US lawyer Mr Randolph Fields, indicated the market faced a shortfall of at least £1bn, although the cost would be spread over many years. It also suggested that plans to form a reinsurance company into which Lloyd's aims to transfer most of these historic liabilities would be frustrated by difficulties in finding sufficient capital for its launch.

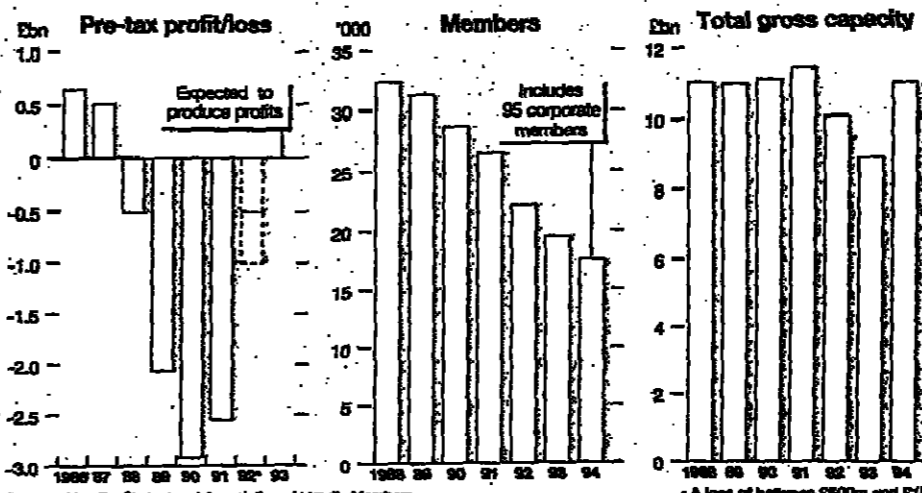
● Critics have recently claimed that the 1991 loss may impair Lloyd's ability to pass the "solvency" test set by the Department of Trade and Industry each August in which the assets of Names are matched against outstanding liabilities.

If Names are found to have liabilities exceeding their assets, Lloyd's has to earmark money from its £1bn Central Fund, which meets claims when Names are unable to fulfil their obligations. But last month Lloyd's annual report showed that more than two-

With Lloyd's due to unveil further losses tomorrow, Richard Lapper examines the market's prospects

Another plunge into the red

Lloyd's of London: a Name in pain



thirds of its fund was already set aside for such purposes, raising the spectre of the market having to call for even more money from Names to replenish the fund.

The setbacks appear marked since they follow a period of optimism over the winter. Following management changes over the past two years, Lloyd's was able to persuade the City to provide £200m of limited-liability corporate capital - for the first time in its 300-year history. That success, however, has persuaded many of Lloyd's top managers that the latest gloom is being overdone. "It is so easy to attack us. So easy to wound the great elephant," says Mr Hiscox.

Lloyd's is confident its plans to form the reinsurance company will be implemented: some underwriters acknowledge in private that many US pollution claims will be settled at less than their full face value, so avoiding legal costs for both sides. Negotiations may reduce some pay-outs to as little as five cents in the dollar - particularly if policyholders decide Lloyd's difficulties mean that is the best they can realistically expect.

Mr Peter Middleton, Lloyd's chief executive, is also optimistic that negotiations might re-

open between Names and agents over possible out-of-court settlements later this year. Above all Lloyd's is confident that it can survive its more immediate pressures on solvency by stepping up efforts to collect debts from Names and by borrowing against profits expected in 1994.

Insurance rates increased sharply in 1993 and Lloyd's

The 1991 loss is the latest in a number of blows to hit Lloyd's this year

believes both that year and this year will be profitable. Last year Names were allowed to borrow against their projected 1993 profits to meet part of their liabilities. Last week Lloyd's announced these "exceptional measures" would also apply in 1994.

Lloyd's is also moving to soften the impact of the 1991 losses by eliminating so-called "double counting". This happens when Names that have made losses in turn claim on their "stop loss" policies (which provide cover for losses over pre-set limits), "errors and

omissions" policies (which give cover if agents are successfully sued for negligence) or "estate protection policies" (which cover the losses of deceased Names).

Even so the 1991 loss is expected to force many Names out of the market. Members' agents, who allocate Names to syndicates, forecast the capacity (the amount of business that can be underwritten) available from Names - as opposed to the new corporate members - will fall sharply in 1995, possibly to about £7.5bn compared to the current £9.3bn.

Though corporate investors could make up part of the shortfall, most observers believe that the total amount of capital will decline next year. "There just isn't the institutional demand out there at present," notes one agency chief executive.

At the same time, reforms planned by Lloyd's could aggravate the market's difficulties over the next year or two. Changes to Lloyd's rulebook could mean many syndicates have to seek more capital simply to underwrite the same amount of business. Earlier this month the Lloyd's council indicated that during 1995 and 1996 it intended to introduce a

system of "risk weighting" which would link the amount of capital required by a syndicate manager to the riskiness of the underlying business. For instance, syndicates underwriting motor business would need less capital, those underwriting catastrophe reinsurance more.

The consequence of the scarcity of capital is likely to be a more rapid restructuring of the market. The number of syndicates has already fallen from 401 in 1990 to 179 this year and further rationalisation seems inevitable. The main casualties are expected to be the smaller and less successful syndicates and agents.

Already there are indications that larger managing agents are using their greater influence to secure as much capital as possible for their own syndicates - at the expense of smaller operators.

The restructuring is not just about the number of syndicates and agents operating at Lloyd's: it is also about the way the market works and how it raises capital. Many large agents, who have been among the quickest to introduce new technology and improve their management standards, are now seeking closer links with corporate investors.

Some agents are moving towards setting up "dedicated" investment funds which will channel capital into just one agent's businesses rather than, as now, a spread of different agents and syndicates. By doing so, they are creating a framework for embryonic "insurance companies" operating within Lloyd's rules but with greater long-term stability than existing syndicates.

"Mr Middleton and Mr Rowland [Lloyd's chairman] have unleashed a process of change which is accelerating like a turbocharger," says one leading underwriter.

Mr George Stevens, managing director of Brookbank, one of the biggest agents at Lloyd's, predicts that the market will be dominated by between six and 10 corporate syndicates before the end of the century.

Such upheavals may ensure the long-term survival of Lloyd's and its businesses, notwithstanding the latest "wobble". But the market that emerges when 1993's expected profits are reported in two years, will be radically different from the one that slid into loss in 1988. Names, trading on the traditional basis of unlimited liability, are likely to play an increasingly marginal role.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Marketing power of electronic cash cards

From Mr Giles Keating and Mr Sean Shepley.

Sir, You report ("EU curbs urged on cash card issuers", May 11) that the European Monetary Institute recommends legislation to give banks a monopoly in the issuance of electronic cards used as a substitute for cash. At first sight this seems appropriate. These are pre-paid cards so the issuers, like banks, will hold deposits from the general public. This suggests they should be supervised in the same way as banks. But it is essential that new entrants be encouraged, to create competition and speed up innovation.

However, much bigger issues are at stake. Electronic cash cards will, within a few years, offer issuers immense power over information about spending patterns of different types of consumer. This information will be highly valuable in marketing and in product development. Who will own it?

The cards may also in future allow currently unheard-of opportunities to boost profits by discriminating among different groups of consumers, for example by offering discounts for customer loyalty, or lower prices to people on low incomes. Who will control access to the necessary data?

Even more intriguing, as electronic transactions become almost universal, the technical question of international compatibility of cash cards will become an issue of sovereignty. If the pound remains outside the single currency, will the British government allow residents, as well as visitors, to use cards loaded with Euros in stores throughout the UK? Will French residents be able to use cards loaded with US dollars everywhere in France? If yes, smaller currencies, at least if they have any hint of instability, will rapidly disappear almost completely. This is currency competition,

as envisaged by the UK's Treasury in its response to the Delors report, something that was impractical in the old days of notes and coins. Governments will be tempted to prevent this by keeping their retail systems incompatible with others, a type of electronic protectionism.

The EMI's apparently innocuous recommendation has far-reaching commercial and political implications. It should be the subject of the widest possible debate.

Giles Keating,
Sean Shepley,
CS First Boston,
One Cabot Square, London E14

Unworthy view of Labour position on Europe

From Ms Joyce Quin MP.

Your negative editorial "Labour after John Smith" (May 13) is unworthy of a serious newspaper. Your question, "Who can say today where Labour stands on any important aspect of the development of the European Union", shows also an arrogant ignorance. At its conference last year Labour adopted a detailed statement on Europe, *Prosperity through Co-operation*. Subsequently, Labour's Treasury team made a detailed submission to the Delors consultation entitled *Economic Renewal in Europe*.

There have also been papers produced on European employment and environment policies and in many other areas. The European dimension is now fully built into the range of our domestic policies.

I find it deeply depressing that a serious political commentator can dismiss this evidence so lightly or, even worse, can apparently remain in total ignorance of it.

Joyce Quin,
Labour frontbench spokesperson on European Affairs,
House of Commons,
London SW1

Swedish stock futures already a significant market

From Mr David Courtney.

Sir, I read with some interest of the Sydney Futures Exchange's plans to launch individual stock futures on May 16 ("Sydney to trade share futures", May 12), but was rather dismayed that the existing market for Swedish stock futures was not given the credit it deserves.

Stock futures have been listed on both OMLX, the London Securities and Derivatives Exchange and OM Stockholm for several years. At present, a total of 23 Swedish companies have stock futures available on them and it is our intention to launch further contracts in due course. As such, this can hardly be described as a "handful".

I would also like to point out that volumes are rising at an exponential rate. The year-on-year increase to the end of April was some 238 per cent with almost 90,000 contracts traded.

I would also like to point out that, with a total volume of 23.3m contracts, the total volume of Swedish derivatives traded last year exceeded that of the Sydney Futures Exchange by 1.75m contracts, thus making it a significant market in outright and comparative terms.

David Courtney,
marketing director,
OMLX, The London Securities and Derivatives Exchange,
107 Cannon Street,
London EC4N 5AD

Inflating its ego again

From Mr Bob Edwards.

Sir, Diane Summers reports "Saatchi raps 'sloppy' advertising industry" (May 13), in particular the blandness and misconception of most global advertising campaigns. This would be valued criticism were it not for the fact that Saatchi and Saatchi was itself the arch proponent of the global "one brand one campaign" movement throughout the 1980s. If basic improvements in service, clarity and value, they failed. Belatedly, financial institutions are looking to their product and their service first.

Advertising is simply a communication tool (often a blunt one at that) and one of a number available to advertisers. The sooner the industry recognises that the better.

Bob Edwards,
Edwards Martin Thornton Advertising,
17 Bedford Square,
London WC1B 3JA

Figures not so different

From Mr E N Lindop.

Sir, David Goodhart's article, "Pay deals analyses differ on growth" (May 9), makes much of the "differing analyses" of trends in pay settlements recently published by Incomes Data Services and Industrial Relations Services.

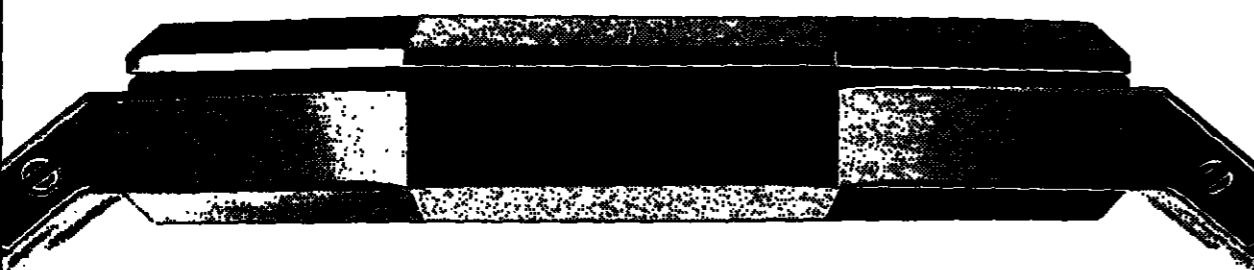
A closer look at the two sets of data would have revealed a crucial difference, namely, that they cover different time periods.

While the IRS figures cover the three months to March, the IDS analysis focuses particularly on settlements in April, one of the key months for pay reviews.

When data is available for the same time period from both organisations, we have little doubt that the results will show a similar picture.

E N Lindop,
Incomes Data Services,
185 St John Street,
London EC4V 4LS

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Union will try to forge more even-handed strategy

EU seeks stronger links with Russia and Ukraine

By Lionel Barber in Brussels

The European Union will today start to try to forge a more even-handed strategy toward Russia and Ukraine, whose neighbourhood rivalry remains a source of instability in Europe.

Barring last-minute objections, EU foreign ministers in Brussels are likely to approve a new "partnership" agreement with Russia with the ambitious goal of a common free trade zone by the end of the century.

However, the EU is balancing its Russia policy with a deeper engagement with Ukraine, whose nuclear arsenal and collapsing economy make it a regional danger spot.

Ministers will today examine a European Commission paper which calls for several initiatives to strengthen political co-operation and overhaul the command economy in Ukraine.

The plan recommends Ecu100m (\$113m) in emergency food aid and measures to improve nuclear safety, particularly the dismantling of the Chernobyl nuclear

plant, which experts estimate could cost between Ecu300m and Ecu500m.

Chernobyl funding will be a key topic at the Group of Seven industrialised countries' summit in Naples in July.

Ministers may balk at the

Commission's food aid plan because of conflicting evidence of food shortages and worries that emergency shipments could distort local agricultural markets.

Some countries may also seek to delay approval of the documents in favour of waiting for a deeper analysis of the Ukrainian political economy.

A senior EU diplomat said Russia had modified its resistance to stronger relations between the Union and Ukraine. But Brussels had to tread carefully because of Russia's and its own insistence that economic aid should be linked to Ukraine meeting its pledge to ratify the Nuclear

Non-Proliferation treaty.

The EU recently completed a "partnership" agreement with Ukraine that is slightly less generous than the EU-Russia pact now virtually complete.

The EU-Russia partnership pact is likely to be approved, provided ministers agree to settle the two controversies that have plagued negotiations over the past 18 months. These are the EU's treatment of Russian uranium exports and Moscow's treatment of European banks operating in Russia.

France, the EU's largest producer as well as consumer of enriched uranium for its nuclear power plants, has been worried about being undercut by Russian exports. A new safeguards regime operating until 1997 may ease French concerns.

Member states are less enthusiastic about the banking offer, which Russia has asked for no more than 12 per cent of the total capitalisation of the Russian banking system, with Moscow offering a non-committal reply after five years.

China tries to cure local stock market ills

By Tony Walker in Beijing

China is postponing new stock listings in an attempt to ensure that companies seeking investment from the public are sound, and it wants to increase the role of investment funds to calm its volatile stock markets.

The official Xinhua news agency reported that a considerable portion of the stocks scheduled to be issued this year to local investors, known as A-shares, will be postponed to 1995.

China had planned to issue about Yn5.5bn (\$834m) of A-shares in 1994 to enliven its flagging securities markets, which have fallen sharply in the last year. The postponement does not affect B-shares, denominated in dollars for foreign investors.

Government authorities, who have also sought to impose stricter discipline on the country's futures exchanges, are seeking to rebuild public confidence in the stock market.

Disillusioned Chinese investors have been deserting the two stock exchanges, in Shanghai and Shenzhen, in droves for bonds and other securities. The shift has come as many newly listed companies have not met expectations.

The state council securities committee said the development of China's stock market should be conducted on a "step by step" basis. It said that, in future, companies planning public offerings would be obliged to accept "six-month-long coaching by relevant departments".

Meanwhile, stock issuing quotas allocated to local governments for this year will be delayed until 1995, the committee said. The government also plans to strengthen its supervision to "prevent market manipulation and insider trading".

The authorities will encourage the development of investment funds and it is hoped these will become the "backbone of the future stock market".

Loss of a strong institutional presence in the markets, which have been dominated by individual investors, has contributed to their volatility.

Hanson's longer horizons

Hanson's name is so linked with short-termism that its decision to lengthen its target payback period may seem odd. New investments are now to be authorised if they promise to pay for themselves within five or six years rather than the previous target of four years. Nevertheless, the move looks logical. With inflation low and money cheap, it makes sense to accept a lower rate of return. That, at any rate, is what the Bank of England and the Confederation of British Industry have been telling industry in recent months.

Whether the stock market views it that way remains to be seen. Scarcely it is running short of profitable investment opportunities. For many years, Hanson was able to increase earnings by exploiting the anomalies of acquisition accounting. But that is no longer possible. Investors may fear that Hanson will now turn to poor investments to maintain growth.

Another worry could concern dividends, which were frozen last December. Hanson's cash position will become clearer tomorrow when it reports its half-year profits. But the danger is that a longer payback period could skew the group's cash flow profile as a result of a higher investment rate and a longer wait for projects to pay off. That, in turn, could undermine Hanson's ability to increase dividends. An extended payback looks justified given low inflation and interest rates. Even so, investors will probably need reassuring.

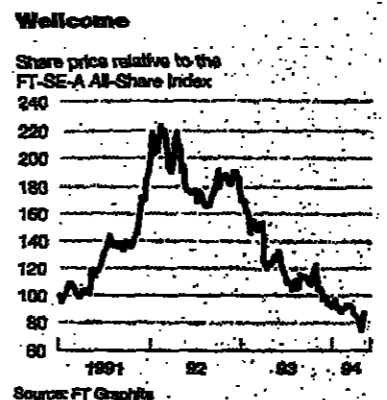
British Airways

British Airways appears to be the main winner of the battle for Orly. As part of yesterday's deal, British agreed to study whether access to Heathrow by a number of small French airlines could be improved. But this looks more like a face-saving device for the French than a serious concession by the British. The main point is that France has accepted that BA and its fellow UK airlines, Air UK and British Midland, will have access to Paris. Strategically placed southern airport by the end of June at the latest.

Even so, the fuss kicked up by Paris before it gave way shows just how hard it will be to pry open the French aviation market. Surrender in this battle does not mean further liberalisation will come easily. The French government is so keen to protect the nearly bankrupt Air France that it can be expected to fight a rearguard action

THE LEX COLUMN

Hanson's longer horizons



to frustrate BA's further expansion. The next flashpoints are likely to concern Air France's Fr20bn recapitalisation and plans by TAT, BA's French affiliate, to fly from Orly to Toulouse and Marseille. The Fr20bn recapitalisation is probably illegal under the Treaty of Rome as it constitutes state aid but the European Commission is expected to let it through - albeit with conditions - because of France's political clout. Similarly, although the Commission has ordered France to open up flights from Orly to Toulouse and Marseille, Paris is appealing to the European Court of Justice. BA's shareholders have further bumpy rides to endure before they can enjoy the fruits of the airline's Gallic investments.

Wellcome

Wellcome's recent recovery has been nearly as startling as its decline. The shares have risen by 15 per cent in three weeks and on the evidence of Friday's 7p rise to 589p there is still some momentum. For investors who bought shares from Wellcome Trust at 80p two years ago, the rally will be of some comfort. After a string of disappointments - culminating with the decision in March to abandon development of a new anti-viral compound - the company will struggle to regain a premium rating.

There is no single reason for Wellcome's sudden rehabilitation. Although Retrovir will never be the money-spinner once hoped, the company has cemented its position in Aids therapy by signing a marketing agreement with Glaxo. Early data suggests Famvir, SmithKline Beecham's anti-viral treatment, will not elbow aside Zovirax, Wellcome's biggest selling drug. Roche's acquisition of US drugs

company Syntex at a large premium to the market share price also pointed to value hidden elsewhere in the sector. On a multiple of around 10 times this year's forecast earnings at the depths, Wellcome certainly looked cheap on all but the bleakest diagnosis. But much still depends on the growth it can squeeze out of Zovirax in the face of competition and expiring patents. Disappointment on that score would cast doubt on Wellcome's ability to make the global grade as an independent company. The Trust - which still holds 40 per cent - might then wonder whether it would be better off with a smaller stake in a larger, less risky company.

Credit cards

Despite the stirrings of competition, credit cards are still a lucrative business for Barclays and National Westminster who together control around half the market. Both still charge annualised percentage rates around 22 per cent even though base rates are only 5.25 per cent. Newcomers have failed so far to make significant inroads. Save & Prosper, whose APR is only 13.9 per cent, has less than 1 per cent of the market, though it has been selective in targeting customers. But the GM Card has attracted 350,000 customers in the space of a few months. The big issuers would be rash to assume their profits are secure.

High margins and low barriers to entry mean credit card companies must be vulnerable to competitive attack. Part of the trouble has been inertia on the part of consumers, who tend simply to look to their existing bank to provide a card. Gradually that is starting to change as brands proliferate. GM's role is important in the regard as is that of niche operators like Bank of Scotland who promote affinity cards. It is behind the card issued by The Sunday Times, for example.

It may take only a spot of aggressive marketing for the stranglehold of the big two to be broken and pricing to crumble. It would make sense for Mr Peter Wood of Direct Line, the Royal Bank of Scotland's insurance subsidiary, to take a serious look. Direct Line has the necessary expertise in marketing, cheap processing and risk analysis. It is already spreading its wings into household insurance, consumer loans and mortgages. If he went into credit cards too, Mr Wood could easily do to that industry what he has done to motor insurance.

Russia 'to hold course on reform'

Continued from Page 1

successfully; those with the potential to do so but which need state help; and those which are "hopeless enterprises which should be closed down in accordance with a law on bankruptcy".

The third group, however, will only be closed when a social safety net is in place to deal with the employees thrown out of work. It is an issue on which, he says, the government is now working in association with western financial institutions.

"The issue here," he says, "is the possibility of channelling the international financial credits towards the resolution of, above all, social problems."

Mr Chernomyrdin, seen in the west for some time as, at best, a reluctant reformer, displays himself in his article as one who revels in the changes ushered in by privatisation and by the transformation of cities and their "defected, sombre queues" into places with "smart advertising hoardings and attractive, lively goods".

He takes grim satisfaction in castigating "ultra radicals" who warned western institutions not to advance further funds. The International Monetary Fund has gambled on his economic stewardship by advancing the second half of the \$3bn systemic transformation facility.

Mr Chernomyrdin says Russia's relations with the IMF have become "a symbol of our new openness in economic matters".

Irish PM raises hopes for end to peace deadlock

By Philip Stephens, Political Editor, in London

Mr Albert Reynolds, the Irish prime minister, raised hopes yesterday that clarification of last December's Anglo-Irish declaration for Sinn Féin, the political wing of the Provisional IRA, might at last break the deadlock in the search for peace in Northern Ireland.

But Mr Reynolds' comment that written questions about the declaration from Sinn Féin were "answerable" coincided with the murder by the IRA of another British soldier in a rocket attack on an army outpost in Armagh.

Speaking in the US where he held unscheduled talks at the weekend with Mr Bill Clinton, the US president, Mr Reynolds, also indicated that Dublin and London would not wait indefinitely for a positive response from the Republican movement.

Mr Reynolds told Ireland's RTE radio: "The questions by and large are answerable, and I hope that the British government will see them in that light, and will give the most positive response they can." He added: "I think the vast majority of people in Ireland - and Britain - want to see a breakthrough, and move this latest roadblock out of the way."

But in a speech in Chicago where he received an honorary degree from the University of Notre Dame, Mr Reynolds displayed his frustration at the

IRA's refusal to end its campaign.

Stressing the two governments' commitment to secure a broad-ranging political accord to replace the Anglo-Irish agreement of 1985, Mr Reynolds said: "The leaders of the Republican movement know that we still hope they will opt to play their part... They must also know, as Edmund Burke once put it, that there is a limit at which forbearance ceases to be a virtue."

Mr Michael Aheran, Northern Ireland minister, signalled that the two governments were drafting plans for a comprehensive political settlement.

British ministers said Sinn Féin's questions, passed to the London government by Dublin last week, would be published in the next few days together with the government's responses.

But Sir Patrick Mayhew, Northern Ireland secretary, was determined Britain would not be drawn into negotiations on the declaration until the IRA ended its campaign of violence.

Mr Gerry Adams, Sinn Féin president, gave a clear hint at the weekend of the areas in which the IRA was seeking clarification.

These include the timescale in which Britain expected to see agreement between all the people of Ireland, the constitutional options it foresaw as realistic alternatives to the status quo and the basis for the "Unionist veto" on change in the north.

S Africa

Continued from Page 1

business and other organisations before imposing new measures.

The cabinet will this week begin shaping its legislative agenda, and Mr Mandela is due to address parliament tomorrow to lay out the government's plans for its first months in office.

The budget to be presented by Mr Derek Keys, finance minister, will have to reconcile many conflicting regional spending needs. The ANC has costed its reconstruction and development programme nationally at R39bn (\$10.7bn) over five years.

Europe today

Western Europe will become significantly cooler this week. Unlike yesterday, the Benelux and Scotland will be dry with sunny periods. Rain will cross France ahead of a surge of cool Atlantic air. The rain will spread to southern England during the afternoon and evening, but it will be preceded by a warm easterly breeze. Central Europe will be warm and mainly sunny with afternoon temperatures between 23C and 27C. Spain, however, will have showers and thunder storms followed by much cooler temperatures. A low pressure area over the Baltic states will bring patchy rain as far south as the northern Balkans. Scandinavia will be mainly dry but cool, while the eastern Mediterranean will have a prolonged warm period.

Five-day forecast

Advancing cold air will push the very warm air and its high temperatures further east, bringing a lot of rain to western Europe, where it will be cool in the middle of the week. Later, heavy rainfall is expected east of the Alps. Meanwhile, Scandinavia will become unsettled, while the eastern Mediterranean will, in general, stay dry, warm and sunny.

FT WEATHER GUIDE

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	31	Caracas	31	Edinburgh	16	Madrid	19
Accra	31	Cebu	31	Faro	16	Malaga	19
Algeria	31	Colon	31	Frankfurt	16	Manila	29
Amsterdam	20	Doha	31	Geneva	20	Medan	29
Athens	28	Hong Kong	31	Guangzhou	28	Moscow	18
Bahia	28	London	17	Helsinki	17	Mumbai	28
Bangkok	35	Luxembourg	17	Osaka	22	Nairobi	28
Barcelona	21	Madrid	19	Paris	17	Rangoon	34

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Monday May 16 1994

BROOK Hansen

POWERFUL CONNECTIONS

Controllers, Electric Motors, Gearboxes

Profits revealed at JC Bamford

By Andrew Baxter in London

JC Bamford, one of the UK's largest privately owned manufacturing companies, more than trebled pre-tax profits last year and is considering building a new factory at Cheshire, Staffordshire, to cope with rising demand.

The company, Britain's biggest producer of construction equipment, will tell its 2,700 employees this week that pre-tax profits surged from £8.3m (£12.1m) in 1992 to £26.6m last year, as sales rose from £359.8m to £388.4m.

JCB, founded by Mr Joe Bamford in 1945, has traditionally sold little about its overall financial performance. But his son Sir Anthony Bamford, chairman, has revealed for the first time details of the company's recent profits record.

The figures show that JCB's pre-tax profits dipped to a low point of £3.3m in 1992. But it is one of the few construction equipment producers in the world to have come through the recent recession without making an annual loss.

Sir Anthony said all the company's divisions were profitable last year, except its wheeled-loader business, which had just launched long-awaited new products, and its three-year-old excavator joint venture with Japan's Sumitomo Construction Machinery.

The joint venture, JCB-SCM, shares a factory in Uttoxeter with the JCB Special Products company, which makes small machines. Sir Anthony said the factory was "bursting at the seams" last year because the strong year had increased the need for local content in the venture's Japanese-inspired products.

JCB's intention was to move Special Products to the 91-acre site of a former open-cast coal mine at Cheshire, which the company bought two years ago. The move, said Sir Anthony, would be "positive" for employment, but JCB has yet to make a final decision.

The company had added 400 jobs this year, and produced 4,000 machines in the first quarter, up 68 per cent from a year earlier. Sir Anthony said pre-tax profits this year should rise to £28m-£30m.

Hanson increases investment pay-back time

By Roland Rudd in London

Hanson, the Anglo-US conglomerate, has lengthened its pay-back period for new investments by up to two years, in a move to take advantage of low interest rates and inflation.

Mr Derek Bonham, Hanson's chief executive, confirmed that the company had lowered its pay-back criteria for capital investments. They will be authorised if they pay for themselves within five or six years instead of the previous target of three to four.

The move comes as other companies are considering lowering investment thresholds, and targets for return on capital, in response to falls in interest rates. But other big industrial groups have not yet lowered their pay-back levels.

Hanson's change of strategy is partly based on the company's outlook for interest rates and inflation, which Mr Bonham expects to remain under control. But Hanson is also keen to allay fears of short-termism often levelled at conglomerates.

In a report on UK competitiveness, the Commons Trade and Industry Select Committee warned of an alarmingly low level of labour productivity and "remaining deep-rooted problems" in investment.

Hanson believes the falling cost of capital will enable it to take the longer-term view on capital investment that has been urged by the Bank of England and the Confederation of British Industry.

that the company may be making an admission that short pay-backs are no longer feasible.

BTR, the industrial conglomerate, has generally had a pay-back period of less than four years, although it told analysts this was not feasible during a recession.

The General Electric Company, which told the trade and industry committee that institutions were pre-occupied with short-term economic performance, said its real target rate remained unchanged at 20 per cent.

Mr Alan Spall, finance director at Imperial Chemical Industries, believed inflation to be only one element in the equation. "The fact that inflation has come down doesn't at all mean that our hurdle rates have come down as well," he said recently.

Hanson is expected to confirm tomorrow, when it publishes its results, that the US still offers the best acquisition opportunities, although it would like to make a big takeover in the UK.

Lex, Page 14

Raymond Snoddy on why PolyGram may be laughing all the way to the bank

Four ambitions and a European film studio

For a few hours on Wednesday evening London's Leicester Square could have passed for Los Angeles or New York on a big movie night. There were the slow procession of stretched limousines, the hundreds of fans behind barriers, and the stars bathed momentarily in flashlights for the UK premiere of *Four Weddings and a Funeral*.

An audience which has been longing for the revival of the British film industry was there to salute the success of a movie minnow, a £5m romantic comedy shot in 36 days in Britain with the help of Channel Four finance. It has become the first British film for six years to take the number one spot at the US box office.

With equally good results coming in from France and Australia, the film - produced by Working Title, a subsidiary of PolyGram Filmed Entertainment - is beginning to look like a worldwide hit.

Yet as Michael Kuhn, the London lawyer-president of PolyGram Filmed Entertainment, prepared for the premiere he was not dreading the Union Jack or planning to claim another rebirth of the British film industry.

That sort of thinking Mr Kuhn denounces as "total crap". For good measure he says those who seek subsidies for British films "drive me nuts". "Four Weddings is a major movie success and what's British? Got to do with it?" says 43-year-old Mr Kuhn, whose business is part of the PolyGram group, controlled by Philips of the Netherlands.

"This has been funded by the profits of 32 record companies around the world. That's what paid for this movie and its marketing. It's nothing to do with British. It's the entertainment

business and it's ludicrous to keep talking about the British industry in this way," he adds.

Mr Kuhn has set himself the uniquely difficult task of building a European-based "studio" - on a Hollywood scale but without walls. The studio simply exists as a collection of independent production companies either owned or controlled by PolyGram. Over the past three years with hardly any fuss PolyGram has got on with making films - 29 so far with eight more in various stages of production.

No less than \$3m out of a total marketing budget of \$15m for the film - PolyGram's first unambiguous success - was spent in Los Angeles and New York on an intensive advertising campaign for the launch at five cinemas. Average revenues were \$27,000 per screen on the first weekend - the sort of figures that could be used to persuade exhibitors to show the quirky sort of film that rarely makes it to mid-West cinemas.

But make it did, and by the time of the London premiere *Four Weddings* had taken \$31m at the box office. Mr Kuhn believes \$50m gross could be earned from North America and a similar amount from the rest of the world.

That is only a small proportion of the film's financial potential. The typical film earns about a fifth of its revenues at the cinema box office, video 50 per cent, television 20 per cent and other areas of exploitation 10 per cent.

"We need just one more film not dissimilar to *Four Weddings* and then on a project basis - forget the overheads - these two would have recouped the losses on all the movies we have made to date," he says.

Others have done reasonably well - *Backbeat*, the PolyGram film about the



Michael Kuhn: 'By 1996 or 1997 we will be the only European-based studio'

man who walked away from the Beatles will certainly get its money back. And with others the risk is minimised. The actual cost of the film is covered by selling rights in advance and usually only the marketing costs are at risk.

But film history suggests that when Europeans try to challenge Hollywood the moment of success is the moment of maximum danger. *Rescue* was the expensive flop that did for Goldcrest in the wake of its association with successes such as *Chariots of Fire*. *Raise*

the *Titanic* scuppered Lord Lew Grade's film ambitions. "It would have been cheaper to lower the Atlantic," Grade cracked at the time.

Mr Kuhn says he has taken a step-by-step approach in putting in place the building blocks of a studio, without property but combining the essential components of production and distribution. "By 1996 or 1997 if God is in his heaven and smiling on us we will be

continued on Page 18

Atlantic Richfield loses on derivatives

By Martin Dickson in New York

Atlantic Richfield, the US energy company, has confirmed press reports that investments in derivative securities led to steep losses last month in an employee investment fund it manages.

Arco is the latest of several large US companies, including consumer products group Procter & Gamble, to acknowledge suffering significant losses in derivatives due to volatility of markets. Losses have reinforced pressures in Congress for regulation of derivatives markets, which critics argue are poorly policed, badly understood and could pose a systemic risk to the financial system.

Mr Al Greenstein, an Arco spokesman, told Reuters the group's Money Market Plus Fund lost \$23m or 5.3 per cent of its principal in April and all the losses were associated with derivative securities with principal risks.

He said the company had since liquidated all derivative securities in question and changed strategy to avoid such investments. Mr Greenstein added Arco had informed investors in the fund that it wants to "make good" on the losses. He said it was consulting the Internal Revenue Service to work out "highly complex" tax issues involved with a reimbursement. It was not Arco's policy to reimburse employees for fund losses, but it wanted to do so for investors of the Money Market Plus Fund since they "had the expectation that their money was not at risk".

Markets this week

Starting on page 20

MARTIN DICKSON: GLOBAL INVESTOR

Global markets will take their lead this week from the US, where the Federal Reserve seems certain to put up short-term interest rates. Page 20

PETER NORMAN: ECONOMICS NOTEBOOK

European Union officials are giving thought to fiscal deficits in anticipation of economic and monetary union. Not only are the deficits a significant economic problem: they could create strains between anti-deficit hardliners and others. Page 20

Bonds: German government bond yields have failed to respond substantially to last week's generous German interest rate cuts. Page 22

Equities: Stock market analysts sound increasingly frustrated as they watch the Footsie 100 bounce on the 3,100 fence, unable to disentangle itself from the bond markets but unwilling to give any further ground. Page 23

Emerging markets: Foreign investors are re-evaluating the creditworthiness of the private sector after a poor first-quarter performance by large Mexican companies. Page 21

Currencies: An expected tightening of policy from the US Federal Reserve this week should help the dollar. Page 21

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This week: Company news

Japanese season still clouded by domestic issues

Earnings announcements by Japanese companies gather full steam this week, with brokers, trading houses, construction companies and particularly leading consumer electronics companies reporting their annual results.

Although many brokers, due to unwell results on Wednesday, reduced their profit forecasts in March, most are likely to show recovery. They have seen a rise in income linked to the south-east Asian markets and to profits from bond trading, but the gains have not been large enough to cover lower-than-expected stock market volumes.

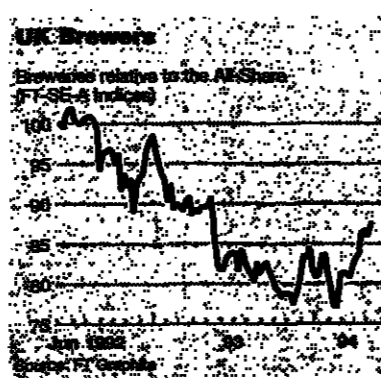
In consumer electronics, Sony will release figures on Thursday. A 30 per cent fall is expected in parent company pre-tax profits, due to depressed domestic demand, while pre-tax earnings are forecast to rise 8 per cent thanks to recovery in the US.

Matsumita Electric Industrial, due on Friday, expects a 4 per cent fall in parent company pre-tax earnings and a 7 per cent decline at the pre-tax level. Most consumer electronics companies have made substantial efforts to cut costs, but the beneficial effects have been offset by currency losses following the yen's appreciation.

With orders falling for nearly two years, construction companies, reporting on Thursday, are expected to show weak figures. Nomura Research Institute estimates that the sector's pre-tax profits fell by about 17 per cent in the year to March.

NRI forecasts a 31 per cent fall in pre-tax profits for the trading houses, hit by a decline in imports caused by the economic slump. Many companies are still suffering from securities investment losses made during the late 1990s.

Honda, the carmaker, has pencilled in a 58 per cent plunge in pre-tax profits because of the decline in domestic demand.



WHITBREAD/ALLIED-LYONS/BASS Beer falls flat as food and leisure thrive

The UK brewers' results season gets into full swing this week, with full-year figures from Whitbread today and Allied-Lyons tomorrow, and interims from Bass on Wednesday.

So far, the season has produced only one real upset: Grand Metropolitan's statement that de-stocking in the US wines and spirits market was likely to cost it \$24m (\$38.40) in the full year. The big question is how far Allied, also a big player in the US market, will confirm GrandMet's experience.

For the UK, a common theme is likely to be that brewing and old-fashioned basic pubs are still doing badly, while pubs relying more on food and leisure are thriving. The worst figures from the trio are therefore likely to come from Bass, the UK's biggest brewer and also a massive pub operator.

Against \$23m last year, pre-tax profits this time could be flat.

Whitbread is expected to do better, with pre-tax of perhaps \$232m against \$220m before exceptional last time.

It is particularly strong on more up-market restaurant-type outlets. Allied's figures will be the first full-year to show the effects of its brewing joint venture with Carlsberg. The actual pre-tax figure is not a matter of debate, since it was forecast by Allied at \$68m at the time of its deal with Domsq in March. This compares with \$64m - again before exceptional - the year before.

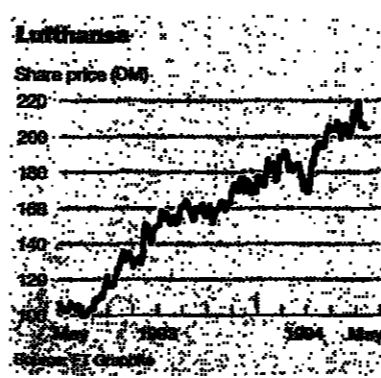
OTHER COMPANIES Lufthansa optimistic as rights issue nears

Lufthansa, the airline still majority owned by the German state, will today report full details of its 1993 figures, expected to show a substantial loss, albeit reduced from 1992 levels. Mr Jürgen Weber, chairman of the airline's management board and architect of an ambitious rationalisation plan over the past two years, is likely to repeat his forecast that the airline will be back in the black at the operating level in 1994. There may be more clues about the timing of the rights issue which will herald Lufthansa's privatisation later this year.

■ Hanson: Shareholders will be interested to find out how much the US Peabody coal dispute has cost the UK based industrial conglomerate, which announces interim results tomorrow. Estimates hover around the \$90m (\$117m) mark. The conglomerate's profits figure - stripping out strike costs - should be between \$58m and \$67m pre-tax, up from \$507m. But it is thought the quarterly dividend will be held at 2.85p.

■ Astra: The fast-growing Swedish pharmaceuticals company will maintain its impressive profits momentum when it announces its first-quarter figures tomorrow. Analysts expect profits of around \$K22m (\$26m), against \$K1.74m a year ago, with volume growth helping to offset a reduced currency impact.

■ National Australia/Westpac: Australia's commercial banks are expected to show a continued improvement in their financial health



when the sector's interim reporting season kicks off on Thursday. Estimates for National Australia Bank, reporting Thursday, range between net profits of A\$750m (\$38m) to something over A\$900m. A year ago, it made A\$507.3m in the first half, including a A\$32.9m abnormal surplus. Westpac is the wilder card, with anything from A\$297m-A\$344m forecast.

■ Krupp-Hoesch: Germany's second biggest steel maker will on Wednesday unveil full results for its first year following the historic fusion of the two companies. The group recently said it lost DM\$63m (\$46.7m) in 1993 but hopes to break even this year.

■ Kmart: Today the market will get further evidence of the US discount store group's difficulties when it produces its results for the first quarter to April. The company warned last month that the figures would be even worse than last year's dismal first quarter, so there are unlikely to be any surprises. In the comparable period, it made net profits of \$50m before extraordinary items, and analysts expect the figure to be halved.

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THE DIFFERENCE BETWEEN BEING BULLISH ON AMERICA AND BULLISH ON THE WORLD

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The Markets

THIS WEEK

Global Investor / Martin Dickson

Fed strives for right pitch



Global markets will take their lead this week from the US, where the Federal Reserve seems certain to put up short-term interest rates at tomorrow's meeting of its policy-making Open Market Committee. The only question is how much it will tighten, and how well or badly this will be received by Wall Street.

Opinion is sharply divided as to whether the bank needs to raise the Fed funds rate by 25 basis points, to 4 per cent, or 50 points. There is a general presumption that it will couple a move on Fed funds with a 50 point increase in the discount rate, which the Fed itself charges for loans. While the discount rate is nowadays regarded by Wall Street as a largely symbolic indicator of monetary policy, it still carries some weight internationally.

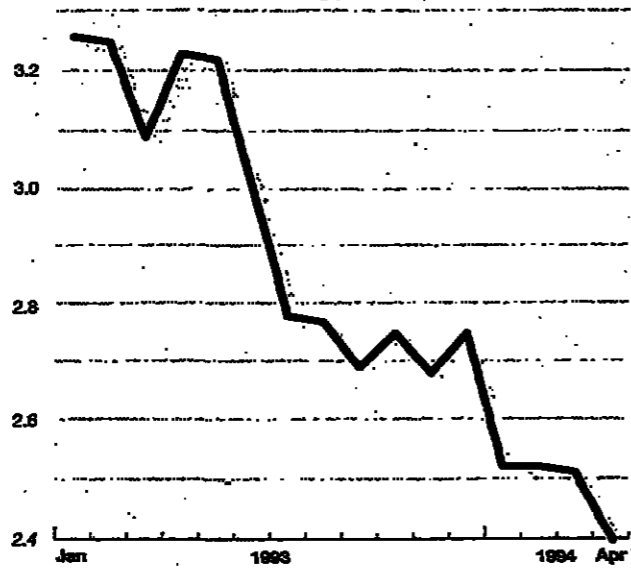
The Fed's gradualist approach - it has increased in 25 basis point increments since it started tightening in February - suggests it will raise Fed funds to 4 per cent, with another 25 point increment at or before the FOMC's next meeting, in early July. Recent signs of greater moderation in the rate of US economic growth could reinforce this stance. But investor sentiment argues for a 50 basis point increase.

The bond market's volatile behaviour over the past two weeks suggests that the Fed still has to convince Wall Street of its inflation-fighting credentials, even though last week's excellent inflation statistics for April underscored that rising prices are not yet a problem.

The Fed's three previous 25 point increases have merely served to leave the market anticipating more, and Fed Funds at 4.25 per cent is already largely factored in to

US Inflation

Consumer Price Index (annual % change)



Source: Datapress

short-term rates. A rise on Tuesday of just 25 basis points could thus be bearish for bonds, the dollar and stocks.

A 50 point increase would be more likely to underpin current bond market values and the dollar. Certainly, higher US rates are a necessary second step to reinforce the recent round of central bank intervention to support the currency. And a 50 point rise would neatly match last week's unexpected cut in German rates, creating the impression that banks are co-ordinating their interest rate structures as well as their foreign exchange market operations.

But even this more aggressive stance may be insufficient to trigger a sustained bounce back in bond and stock prices from the current correction.

The fragility of sentiment in recent weeks shows Wall Street is still struggling to come to grips with the dimensions of the turn in the interest rate cycle, with economic opin-

ion sharply divided over the wisdom of Fed policy, while a majority fears the bank is still too accommodating, a vocal minority argues that it is in danger of choking off growth by fighting yesterday's enemy, since improving productivity, and intense domestic and international competition will keep inflation under control. A plethora of economic statistics and historical analogies suggest long bond yields are abnormally high, but in the current market such fundamentals are of limited help, and it may take a further cathartic plunge in fixed income and equity values before investor psychology turns.

France

Whatever the outcome, and rights or wrongs, of the current Anglo-French tiff over aircraft landings at Orly airport, the publicity surrounding the

affair is unlikely to bolster France's image among US fund managers, who account for such a large part of global investment flows.

The economy may be starting to recover, but since the French Government's climbdown last October over a threatened strike at Air France, American investors have questioned the willingness of Prime Minister Balladur to put the competitive restructuring of French industry ahead of social goals.

The Orly row can only reinforce that concern. For example, Morgan Stanley strategist Mr Richard Davidson recently went underweight on French equities in his model portfolio, fearing that "French Government policies are reacting to political pressures rather than economic objectives."

China/Hong Kong

Weekend news that Beijing has

freed the second of two dissenting leaders of the Tiananmen Square uprising increases the chances that the US Government will renew China's Most Favoured Nation trade status. The Clinton Administration is due to decide on the issue on June 3 and uncertainty over the outcome could hang heavy over Hong Kong equities for the next few weeks.

The White House, which has tied renewal to significant Chinese progress on human rights, seems unlikely to withdraw MFN status completely, since this would provoke a crisis in bilateral relations, severely damage American companies' opportunities in the burgeoning Chinese market, and cause fresh unease in global bond and currency markets over the president's execution of foreign policy.

MFN revocation would hit Hong Kong hard. The China Analyst newsletter reckons that the increased tariffs would price at least \$20bn (£13.6bn)

of Chinese exports out of the US market - nearly 63 per cent of its exports to America - and that some 70 per cent of this trade goes through Hong Kong.

An alternative being kicked around Congress, is a partial removal of MFN status, imposing punitive tariffs on selected state-owned Chinese factories, but keeping them off private sector products. This would be hard to enforce and would still infuriate China.

The noises from both capitals have been more conciliatory in recent weeks, but anything less than full MFN renewal would have a depressing impact on Hong Kong stocks. Renewal could spark a rally in the Hang Seng, yet an overblown Hong Kong property market, tightening credit conditions in China, and rising interest rates in the US (to which the colony's currency is pegged), suggest that the relief would be overshadowed quickly by other concerns. It still looks wise to be underweight here.

Sprint

Sprint, the third largest US long-distance telecommunications group, is talking to Electronic Data Systems, the world's leading computing services company and a subsidiary of General Motors, about a merger or alliance.

EDS, which runs its own global communications network, could substantially cut the cost of its leasing lines, and become more centrally involved in multi-media.

Sprint is one of the cheaper US telecom stocks, trading on a prospective P/E of about 14.5. It seems never to have shaken off its lacklustre Wall Street image of several years ago, when poor long-distance marketing led to a loss of market share.

However, it has now built up a strong brand name,

Total return in local currency to 12/5/94

	US	Japan	Germany	France	Italy	UK
Day	0.07	0.04	0.10	0.11	0.15	0.10
Week	0.31	0.19	0.48	0.51	0.88	0.42
Month	3.31	3.25	8.44	6.94	10.44	6.19

	US	Japan	Germany	France	Italy	UK
Bonds 3-5 year						
Week	-0.80	0.67	0.58	0.49	0.87	0.35
Month	-1.51	1.21	0.03	-0.27	-0.12	-1.05
Year	-1.10	7.21	7.20	7.83	19.21	5.39

	US	Japan	Germany	France	Italy	UK
Bonds 7-10 year						
Week	-1.50	0.37	0.86	0.93	1.160	-0.04
Month	-2.33	1.54	-1.04	-2.19	-1.67	-2.95
Year	-2.59	8.91	6.07	7.64	26.27	5.61

	US	Japan	Germany	France	Italy	UK
Equities						
Week	-1.8	3.5	0.1	0.5	3.8	0.8
Month	-0.8	3.0	1.4	0.7	0.7	-0.5
Year	2.2	4.2	35.8	23.3	54.8	15.2

Best performing stocks from FT-A World Indices in local currency to 12/5/94

	Close	Week	Month	Year
Bridge Oil (Aus)	0.73	30.4	43.1	23.7
Bombardier (Can)	0.80	25.0	0.0	53.9
Fujitsu (Jpn)	735.00	20.5	17.0	7.3
Southern Life (RSA)	35.00	19.7	21.7	33.3
Mandarin Oriental (HK)	10.90	17.2	0.9	28.7
FIAS (Jpn)	20.450	16.8	16.3	43.4
China Estates (HK)	7.50	16.3	-24.6	83.8
Orkla (Nor)	1.540	16.2	21.3	91.8
Saipem (Ita)	4.300	15.9	8.6	48.8
MM Holdings (Aus)	3.15	15.4	4.7	52.2

Sources: Chase & Deane - Lehman Brothers, Equities - G NatWest Securities, The FT-A World Indices are jointly owned by The Financial Times Limited, Guinness & Co., and NatWest Securities Limited.

for both companies. Sprint would get greater access to EDS's large business customers, and EDS's computer expertise would be helpful in a nationwide cellular telephone service which Sprint is trying to set up.

EDS, which runs its own global communications network, could substantially cut the cost of its leasing lines, and become more centrally involved in multi-media.

Sprint is one of the cheaper US telecom stocks, trading on a prospective P/E of about 14.5. It seems never to have shaken off its lacklustre Wall Street image of several years ago, when poor long-distance marketing led to a loss of market share.

However, it has now built up a strong brand name, thanks to an aggressive advertising campaign, and its careful targeting of affluent individuals and small business is winning back market share. Its local telephone business is among the most efficient in the nation and its cellular operations are enjoying particularly fast growth.

As the smallest of the three big long-distance companies, it is subject to greater investor anxiety about eventual long-distance competition from the Baby Bell companies, now barred from that market. But that is a good five to 10 years away, and Sprint is well on the way to establishing itself as a nationally branded telecommunications service. A non-exclusive EDS deal should bolster the stock, as would a link with an international partner.

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*Euromoney, May 1994

Economics Notebook / Peter Norman

Deficit criteria could prompt EU struggles



It has been customary for politicians in the European Union to ignore or minimise a downward trend when market or political forces overwhelm their plans.

This happened in 1992 and 1993 when member governments so underestimated the problems of ratifying the Maastricht Treaty and the impact of recession and divergent monetary policies on the European Monetary System that the EU was wracked by political and currency crises.

Things may now be changing. Partly because of those events, and partly because the Maastricht Treaty includes tough rules against "excessive deficits", officials in the European Commission and EU finance ministries and central banks are giving early thought to Europe's large fiscal deficits.

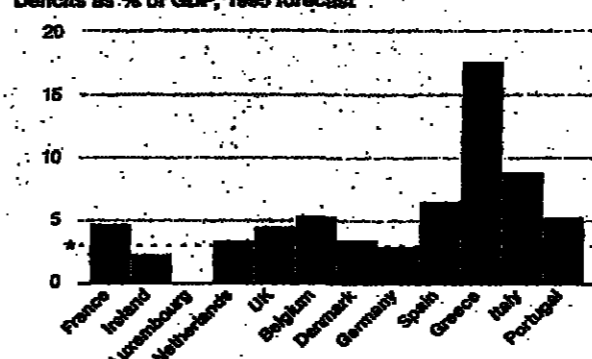
Not only are the deficits a significant economic problem in their own right: they are emerging as the biggest economic (as opposed to political or technical) barrier to a move by member states to the third and final stage of economic and monetary union by the end of the century. They also have the potential for creating strains in the EU between anti-deficit hardliners, such as the Bundesbank, and those who see political advantages in a flexible approach to deficit reduction.

The latest Commission forecast, published last week, highlights the problem. Under the Maastricht Treaty's convergence criteria, a country is supposed not to become an Emu member if its fiscal deficit exceeds 3 per cent of gross domestic product or its stock of government debt is more than 60 per cent of GDP.

But, as the top chart shows, only three countries - Ireland, Luxembourg and Germany - will meet the deficit rule by the middle of the decade. The lower chart shows that a majority of EU members exceed the debt guideline, with four countries having stocks of debt of more than 50 per cent above the Maastricht limit, including Belgium and Italy, members of the original EEC. At present, 11 of the 12 mem-

European Union deficits and debt

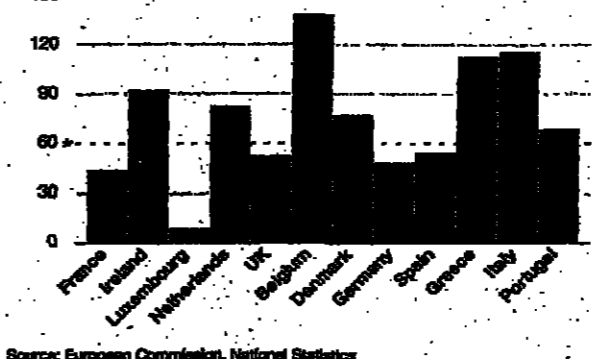
Deficits as % of GDP, 1995 forecast



Source: European Commission May 1994 forecast

* Maastricht criteria

Debt as % of GDP, 1995 estimate



Source: European Commission, National Statistics

ber states appear to be running "excessive deficits" as measured by the Maastricht criteria. Although Mr Henning Christophersen, the commissioner for economic and monetary affairs, has predicted that during 1997 a majority of present members should fulfil the criteria, it is hard to imagine Belgium, Italy, Greece and Ireland ever being able to meet the 60 per cent debt to GDP ratio. Relatively high real interest rates and typically moderate EU growth rates offer no escape from the debt trap.

No-one is shedding tears for Greece, the EU's economic delinquent. But the political pressures to smooth the entry to Emu for Ireland, which meets all other Maastricht requirements, and Italy and Belgium are mounting. They could become especially powerful in Belgium's case if Mr Jean-Luc Dehaene, the Belgian prime minister, succeeds Mr Jacques Delors as commission president.

The treaty makes provision for the deficit and debt criteria to be disregarded in certain limited circumstances. The deficit guideline need not apply if the ratio "has declined substantially and continuously" towards 3 per cent or the excess is "only exceptional and temporary." In both cases the ratio should be close to the guideline. The 60 per cent debt ratio can be disregarded if the actual ratio "is sufficiently diminishing and approaching the reference value at a satisfactory pace."

It is less well known that the commission has important discretionary powers that could enable member states, which fail to meet the convergence criteria regarding the deficits and debt, to be exempt from the excessive deficit rule.

Under the complex procedure for defining and acting upon excessive deficits, it is up to the council of economic and finance ministers to determine whether a country has an "excessive deficit" that would

bar it from Emu.

But the council acts on a recommendation from the commission. According to article 104c paragraph 5 it is for the commission to decide if a given deficit is excessive and to address an "opinion" about it to the council. If the commission provided no opinion, the ministers would have no basis for deciding whether the country was infringing the excessive deficit rules. The applicant country's membership of Emu could not be blocked on these grounds.

These issues may seem arcane, especially if Emu turns out to be several years away (and may never come in Britain's case). But the excessive deficit procedure could be applied for the first time this year. Already some policy makers are trying to ease the impact of the rules.

In Belgium's case there has been a suggestion that privatisation proceeds be counted towards the deficit reduction effort, even though this is technically not possible under the treaty, which measures deficits by the European system of national accounts.

Earlier this year, Mr Christophersen touted the idea of liberal interpretation of the deficit and debt criteria so that countries such as Belgium would not be excluded from Emu. He told a Brussels seminar it had "always been understood that the judgment on whether a member state fulfils the conditions for participation in stage 3 would be based on an assessment, and not on a mechanical application of the convergence criteria."

Remarks such as these have prompted angry responses from members of the Bundesbank central council, including Prof Reinmut Jochimsen, the influential head of the state central bank in North Rhine Westphalia. Such rumblings could presage a greater storm.

The commission looks as if it could land between a rock and a hard place. If it takes a hard line with the EU's debtors, and Belgium in particular, it will only advertise how far the EU countries are from achieving Emu. If it tries to bend the Maastricht criteria for political reasons, it risks running foul of the Bundesbank, other EU central banks and the German constitutional court.

OTHER MARKETS

Minister for Energy

Ministry of Economic Affairs, The Netherlands

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£10,000	✓	2.50	2.25	✓	2.25
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Money Market Bank Accounts

[illegible]

American Express Bank Ltd
Susan Haulton, Burgess Hill BN175 9AQ
High Performance Charge Account

[illegible]

Brown Shipley & Co Ltd	071-623 1155
Established 1874, 100% owned by London City	
Professional's Client Account	4.75 3.56 3.85
Professional's Office Account	4.90 3.68 4.50

[illegible]

\$23,000-249,999	4.00	3.00	4.87	Mich	HMA (5000+)	3.875	2.719	3.675
\$50,000-999,999	4.25	3.19	4.33	Mich	Demond/HMA (5000+)	3.750	2.815	3.803
\$1,000,000+	4.50	3.38	4.58	Mich	HMA (5000+)	3.675	2.909	3.932
\$1,000,000+	4.50	3.38	4.58	Mich	HMA (5000+)	4.000	3.000	4.000


[illegible]

Investment \$1 - 99 Day Notice Savings	5.25	3.04	5.32	0-100
\$50,000+	5.25	3.04	5.32	0-100
\$25,000-\$49,999	4.50	3.38	4.56	0-100

[illegible]

552	Are you dealing in guns? #1-2
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 will rise, Japan's economy & stock market will be weak. You did

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
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